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ABSTRACT

This manual is intended to help school boards in Illinois and other states measure the costs of their benefits programs and to control expenditures for these programs in order to obtain maximum value for employer and employee. It presents a systematic method of computing fringe benefit costs, the comparative costs of benefits programs in Illinois, criteria for evaluating programs, and suggestions for controlling costs and negotiating benefits. The book also contains a special section on negotiating salaries, which offers insight into traditional pay practices, union demands, and alternatives for distributing money on the salary schedule. To achieve its goals, the manual includes (1) step-by-step instructions and a worksheet for computing fringe benefit costs, (2) a discussion of actual and potential costs of benefit programs with tables of comparative data, (3) criteria that can be used to evaluate the effectiveness of a fringe benefit program, (4) a detailed discussion of legally required fringe benefits and of other benefits commonly provided, with suggestions for monitoring and controlling costs, and (5) recommendations for negotiating benefits intended to be of maximum value to the board and employees alike. (Author/JM)

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TEACHER BENEFITS

How to compute costs, compare and evaluate

Plus

a special section on NEGOTIATING SALARIES

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About statutory provisions

Employee benefits regulated by state law are subject to change. Factors used in calculating teacher retirement benefits, qualifications for unemployment benefits, and other state-regulated matters are regularly up-dated by amendatory legislation.

Although the methods for calculating individual benefit costs as set forth in this book will remain valid indefinitely, the permanency of certain cost factors is tenuous. It is important, therefore, to verify state-regulated benefits and costs each year before making local calculations.

March, 1980

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An overview

Although fringe benefits continue to become more important in the compensation of school employees, few school districts have the information they need to evaluate the cost of their fringe benefit packages or to compare their compensation programs with those of other school systems. Studies of fringe benefits for teachers, such as that published by the Educational Research Service (1978), are typically limited to descriptions of retirement programs, leave provisions, insurance benefits, tuition grants, and severance payments. Although cost data may be presented for a specific benefit, such as the average expenditure for insurance, few studies compare salary data with the total cost of the employee benefit program.

A 1964 survey of 205 school districts in 35 states compared fringe benefit costs to average teacher salary. Fringe benefit costs ranged from a low of 4.1 percent of average salary to 24.5 percent, with a mean of 13.1 percent. Retirement costs constituted 85 percent of the total fringe benefit costs. A 1970 case study estimated the total fringe benefit package for an Illinois teacher to cost approximately 23 percent of an eighth-year employee's salary, with state retirement contributions constituting about 38 percent of the $2,400 worth of fringe benefits. In a similar 1977 case study, the eighth-year teacher's fringe benefit package had grown to 26 percent of salary, of which 36 percent was for retirement.

Cost comparisons for non-educational employers are readily available. A U.S. Chamber of Commerce report in 1974 found that the cost of fringe benefits increased 210 percent from 1955 to 1971, compared to an 87 percent increase in wages over the same period. Private sector employee benefit costs comprised 13.1 percent of payroll in 1947, 23.6 percent in 1965, and 30.6 percent in 1971. Costs were as high as 34.3 percent of payroll in the chemical industries. The Chamber attributed these increases to the attractiveness of non-taxable benefits in lieu of salary increases and the shifting of resources to non-wage payments during wage freezes.

A 1972 study compared employee benefits in 146 companies from 1949 to 1969 and found a steady increase in benefit costs as a percentage of payroll. Benefit costs in 1949 were approximately 18 percent of payroll, and this increased to over 30 percent in 1969. Health and insurance benefits showed the greatest rate of increase in this study, followed in order by retirement plans, paid leave, and salary.

Municipal figures reported in 1976 showed that the cost of employee benefits for city workers exceeded those reported by the Chamber of Commerce for private industries. The 1973 National League of Cities study showed 36.8 percent for municipal workers compared to the 1973 Chamber study of 32.7 percent for private sector workers. The average growth rate for fringe benefits for cities between 1973 and 1975 was 12 to 14 percent, while the industry rate was 10 to 11 percent. In comparing seven corporations with seven large city school systems, the school districts had better sick leave, sabbatical leave, vacation, and holiday provisions, while the cor-

porations provided better insurance programs, separation allowances, and tuition payment programs.

The effect of different variables on fringe benefits has also been examined by various researchers. Size, wealth, and location of the school district as well as the local tax effort had some effect on the quantity of fringe benefits for teachers. One study indicated that the type and quality of fringe benefits were affected more by geography than size. A 1971 study surveyed 194 districts in the United States and found that geographic location had a greater influence on the fringe benefits offered than did either per pupil expenditure or school district size.

With employee benefit programs costing more and more, it is clear that one can no longer view them separate from salary; they must be considered an integral part of compensation. Yet government researchers generally report only wage and salary information, ignoring the other factors that determine net advantage in the labor market.

Thus, few school boards are able to translate their true compensation costs. This is a particular disadvantage at the bargaining table. Not only are benefits costly, few employees are aware of the true cost of their benefits, and most of the benefits provide no significant gain, direct or indirect, for the employing district. They grow helter-skelter in response to pressures and circumstances, rather than according to a systematic plan with clear goals in mind.

Indications are that the emphasis on fringe benefits will continue because:

1) Employers want to meet at least in part the economic risks faced by employees;

2) Employers can provide protection against these risks with greater certainty than individual employees can and at less cost;

3) The quest for more and better leisure will grow.

Because employee fringe benefit programs represent a substantial financial commitment, it is essential that school districts develop a thorough and systematic plan for computing, comparing, evaluating, and controlling fringe benefit costs. The purpose of this publication is to provide information designed to aid school districts in completing these difficult tasks.

Chapter 1 (Computing benefit costs) presents a systematic method for computing fringe benefit costs. If used consistently, it can provide useful data for making cost and availability comparisons. Chapter 2 (Comparative costs of benefit programs) includes tables with which to make comparisons and discusses general trends in current benefit programs. Chapter 3 (Evaluating fringe benefit programs) presents criteria which can be used to evaluate the effectiveness of a fringe benefit program. Chapters 4 through 7 present discussions of those fringe benefits most commonly demanded by teacher unions and suggestions for controlling their costs. The final chapter summarizes conclusions and recommendations in regard to fringe benefit programs.

1/Computing benefit costs

School districts often grant fringe benefits to their employees without having an accurate knowledge of their actual or potential costs. To help school districts overcome this problem, the Illinois Association of School Boards developed and field-tested a worksheet that provides a consistent format for computing, reporting, and comparing fringe benefit costs. The worksheet (see page 9) was tested in an Illinois survey and is only slightly modified from the format displaying cost comparisons in Chapter 2.

School districts using the IASB worksheet will be able to exchange information with one another in an intelligible fashion. Moreover, the cost data presented in Chapter 2 will provide base-year data for Illinois school districts that use the worksheet.

For ease of calculation, the worksheet classifies fringe benefit costs into three categories:

1) Actual costs to the local district;
2) Potential costs to the local district;
3) The cost of teacher retirement system contributions paid by the state of Illinois.

Actual costs are the costs for fringe benefits which have been consumed; e.g., sick days used, health insurance premiums. Potential costs are the costs of fringe benefits for which district funds have been committed but which have not yet been consumed; e.g. accumulated sick leave. The cost of teacher retirement system contributions paid by the state of Illinois, while not a local cost, is included in the computation because it is based on local salaries, and it is a part of the fringe benefit package available to teachers.

Within the three classifications, fringe benefits have been grouped according to type of benefit. The groups include: 1) legally required benefits, 2) leaves, 3) insurance, and 4) additional common benefits. Organizing the worksheet in this manner reduces the possibility of a district inadvertently leaving out a benefit in its computation. Within each group, space is provided for computing the cost of additional benefits provided by a district that are not included elsewhere on the worksheet.

The inclusion of a specific benefit on the worksheet should not be viewed as an IASB endorsement of that benefit. Many of the benefits included on the worksheet are undesirable from a management perspective because they: 1) limit management authority, 2) are too costly, or 3) place management in a poor bargaining position.

Here are guidelines for completing the worksheet accurately:

1. Actual Local Costs

Legally Required Benefits:

• **Unemployment Compensation (UC).** UC provides economic assistance to people who become unemployed through no fault of their own; e.g. reduction in force. If the method of payment is direct reimbursement to the state, the cost is computed by dividing total actual claims paid by the number of teachers employed. If the cost-projection (or tax rate method) is used, enter the statutory rate per teacher.

• **Workmen's Compensation (WC).** WC provides financial compensation for employees who suffer an injury while on the job. If the method of payment is direct reimbursement, the cost is computed by dividing actual claims by the number of teachers employed. If workmen's compensation insurance is purchased, the cost is computed by dividing the total cost of the premium by the number of teachers employed.

• **Teacher Retirement System (TRS).**

Numerous benefits are available to teachers through the TRS. The benefits provided include disability insurance, accidental disability, survivor benefits, and retirement income. Enter no figure here. No costs to the local district are mandated. This is a cost paid by the state. The cost will be entered at the bottom of the worksheet.

• **Early Retirement.** As of August 1, 1979, Illinois teachers between the ages of 55 and 59, if they meet certain requirements, become eligible for early retirement without a reduction in benefits. A teacher's decision to participate in the plan necessitates a substantial one-time contribution to the TRS by the employer. Costs are computed by dividing the total annual cost of board contributions by the number of teachers employed.

• **Required Sick Leave.** *The Illinois School Code* requires that each teacher be granted a minimum of 10 days per year (cumulative to 90) at full pay to be used for "personal illness, quarantine at home, or serious illness or death in the immediate family or household." Per teacher costs are computed by multiplying the average annual sick days used by teachers times the daily rate paid for substitute teachers. If the average annual days used by teachers is less than 10, enter the whole figure here. If the average annual days used by teachers exceeds 10, enter the cost of 10 days per teacher here and the balance under additional sick leave on the next line.*

Leaves:

• **Additional Sick Leave.** While *The Illinois School Code* requires that teachers be given a minimum of 10 days per year (cumulative to 90) nothing in the *Code* prohibits school boards from extending benefits beyond the minimums, either through bargaining or by board policy. Costs in addition to the required 10 days are the balance after subtracting the cost of 10 days leave from the total average days used per year. Very few districts will experience an annual sick day usage above 10 days per teacher.

• **Sick Bank.** Sick Banks are designed to provide teachers with protection against financial loss due to long term absences resulting from illness or injury (see Chapter 5). Costs are determined by multiplying the average annual days used per teacher times the daily substitute rate.

• **Personal/Emergency Leave.** Personal/emergency leave provisions generally allow for a limited number of leave days per employee (e.g. two) to be taken for personal business with the approval of a specified administrator. Costs are determined by multiplying the average days used per teacher times the daily substitute rate.

• **Convention Leave.** Most districts provide a budgeted dollar amount to allow teachers, upon approval, to attend professional meetings and/or conventions. Costs are determined by dividing the total annual board cost by the number of teachers employed.

• **Union Leave.** Union leave may be granted sometimes with pay, sometimes without, for union leaders to conduct union business. Costs are determined by dividing the total annual board cost by the number of teachers employed.

• **Sabbatical Leave.** Sabbatical leave may be granted with or without pay to allow an employee a fixed time period to pursue an activity which will increase the employee's job expertise; e.g., educational travel, advanced study. Costs are determined by dividing the total annual board cost by the number of teachers employed.

Insurance:

• **Health Insurance Coverage.** Medical plans for employees protect against expenses arising from illness and accident not associated with employment.

• **Life Insurance.** Many school districts provide term life insurance coverage for teachers.

• **Accidental Death and Disability Insurance.** Accidental death and disability insurance provides financial protection for employees who die or who become disabled as a result of an accident occurring while employed in the district.

• **Dental Insurance.** Available dental plans vary depending on coverage, with some providing only for checkups and preventive dental practice. Almost all have a deductible and exclude orthodontal treatment.

Costs for all insurance provisions are determined by the per teacher premium paid by the board. On line A enter the amount paid by the board for individual employee coverage. On line

*Using an "average number" of sick days to calculate costs may produce something less than an accurate result. Some teachers may use more sick leave in a year than they are entitled to. For example, a teacher may use 12 days in a year for which he is entitled to only 10, or a teacher may use 70 days when his total accumulation is only 60. To improve the accuracy of the computation, those districts which maintain individual teacher records which indicate excess sick days can subtract the number used in excess from the total number of days available in computing the cost of **Required Sick Leave.** The cost of excess days should be included in the figure arrived at for **Additional Sick Leave,** because they would in fact be a local benefit not required by statute. To arrive at an accurate cost figure, include the number of excess days in the calculation for determining the average number of sick days used in addition to those legally required.

B enter any additional amount paid by the board over and above the amount paid for individual coverage. Example: total board costs for hospital/medical insurance for individual family coverage =$400. Board costs for individual coverage=$250 (enter $250 on line A). Additional board costs for family coverage=$150 (enter $150 on line B).

Other Benefits:

• **Board-Paid Teacher Retirement Contribution.** The Internal Revenue Service has ruled that board-paid retirement system contributions can be tax sheltered if certain conditions are met. Two methods of sheltering are available: sheltering from the schedule and sheltering "outside" or "in addition to" the salary schedule. Of the two methods, only the latter method represents a fringe benefit cost to the district. (See Chapter 7 for a detailed discussion of both methods.) Costs for board-paid teacher retirement contributions in addition to (or outside) the salary schedule are computed by dividing total dollars paid by the board by the number of teachers employed.

• **Tuition Reimbursement.** Tuition reimbursement is payment for college credits earned by teachers. Costs per teacher are determined by dividing the total expenditure for tuition reimbursement by the number of teachers employed.

• **Severance Pay.** Some school districts provide a lump sum payment upon termination of employment, usually limited to retiring teachers, after a specified number of years of service in the district. Costs per teacher are determined by dividing the total actual costs by the number of teachers employed.

• **Local Early Retirement Incentive Programs.** Local early retirement plans are designed to encourage teachers who have reached retirement age, and who would not normally retire at that time, to retire or to consent to a reduction in their work schedule for one or more years. Costs per teacher are determined by dividing the total actual costs by the number of teachers employed.

2. Potential Local Costs

Although actual per teacher annual cost for sick leave, sick leave bank, and personal/emergency leave can be determined from experience, school districts must, in addition, be prepared for the potential costs created by making these leaves available. Potentially the maximum days available could be used. Therefore, it is appropriate to account for the possibility that all available leave could generate costs to the district.

These potential costs can be determined by subtracting the actual annual days used per teacher from the maximum days made available. Multiply the balance times the daily substitute rate.

3. State Retirement Costs

This is not a cost to the local district, but it is a cost generated by the salary paid locally to teachers, a benefit available to teachers, and paid for from tax funds. (The rate in 1977-78 was 12.4 percent of annual salary; for 1979-80 it was 14.0 percent.) Enter the current rate and multiply times the average teacher salary in your district.

Upon completing this worksheet, the school district will have the following information displayed on a single sheet:

1) Per teacher cost for each benefit granted by the district.
2) Total per teacher cost in each of these categories:
   a. legally required benefits;
   b. leave benefits;
   c. insurance benefits;
   d. other benefits.
3) Total cost for all actual local district costs.
4) Total potential costs to be added to actual costs.
5) Cost of retirement benefits to the state generated by local salary schedule.
6) Total actual and potential cost to the local district plus retirement cost to the state.

A knowledge of these costs can help a local district by generating an awareness of the scope of benefit costs, providing a basis for comparing costs with other districts, and establishing a basis for controlling and monitoring benefit costs.

In addition to providing a means of determining actual and potential cost of an existing program, the worksheet provided in this chapter can be used to estimate the costs of an expanded program demanded by the union or made necessary by other considerations.

Worksheet for Computing Per Teacher Costs for Fringe Benefits

I. Actual Costs to Local District

Legally required Benefits:

Unemployment Compensation (If direct reimbursement, enter total actual cost ÷ number of teachers employed; if tax rate, enter statutory rate per teacher) $_____

Workmen's Compensation (If direct reimbursement, enter total actual costs ÷ number of teachers employed; if insured, enter total premium costs ÷ number of teachers employed) _____

Teacher Retirement System (see III below) _____

Early Retirement (Total annual cost _____ ÷ number of teachers employed) _____

Required Sick Leave (see next line) (Average annual days, if 10 or less, used per teacher _____ X daily substitute rate $_____) _____

Total Required Costs Per Teacher $_____

Leaves

Sick (in addition to required) (Average annual days above 10, used per teacher _____ X daily substitute rate _____) _____

Sick Bank (Average days used per teacher _____ X daily substitute rate _____) _____

Personal/Emergency (Average annual days used per teacher _____ X daily substitute rate _____) _____

Convention (Total annual board cost _____ ÷ number of teachers employed _____) _____

Union Business (Total annual board cost _____ ÷ number of teachers employed _____) _____

Sabbatical (Total annual board costs _____ ÷ number of teachers employed _____) _____

Other Leave _____ _____

Total Leave Costs Per Teacher _____

Insurance

Hospital/Medical

A. Individual Only (Board cost per teacher) _____

B. Additional for Family (Board cost per teacher) _____

Life (Board cost per teacher) _____

Accidental Death Supplementary (Board cost per teacher) _____

Dental

A. Individual only (Board cost per teacher) _____

B. Additional for Family (Board cost per teacher) _____

Other Insurance _____ _____

Total Insurance Costs Per Teacher _____

Other Benefits

Board Paid TRS (Total annual cost, paid outside salary schedule to TRS _____ ÷ number of teachers employed) _____

Tuition Reimbursement (Total annual cost _____ ÷ number of teachers employed _____) _____

Severance Pay (Total annual costs _____ ÷ number of teachers employed _____) _____

Local Early Retirement (Total annual cost _____ ÷ number of teachers employed _____) _____

Other _____ _____

Total Other Benefit Costs Per Teacher _____

Total Actual Benefit Costs to District Per Teacher $_____

II. Potential Additional Cost to Local District

Sick Leave (available) (Maximum days available per teacher _____ — average days used per teacher _____ X substitute rate _____) _____

Sick Leave Bank (available) (Maximum days available per teacher _____ — average days used per teacher _____ X substitute rate _____) _____

Personal/Emergency Leave (available) (Maximum days currently available + cumulative per year per teacher _____ — actual days used per teacher _____ X substitute rate _____) _____

Total Potential Additional Costs To District _____

III. Contribution to TRS by State

Legislated Rate _____% X Average Teacher's Salary _____ _____

Total Actual + Potential + State TRS Per Teacher $_____

2/Comparative costs of benefit programs

Ronald R. Booth studied 603 Illinois school districts during 1977-78 in an effort to:

1) Develop an accurate and consistent method of computing teacher benefit costs;

2) Identify general patterns regarding type and extent of benefits offered by school districts;

3) Determine the current status of fringe benefits provided to Illinois teachers, their comparative costs, and their costs in relation to salary;

4) Assess the impact of collective bargaining, district size, and geographic location on both the availability and the cost of fringe benefits.

Although the study produced data for the 1977-78 school year only, it provides a useful statistical base for making cost comparisons. Tables One through Three summarize the average cost per teacher for numerous kinds of benefits. Table Four totals the average costs from the other three tables (actual plus potential). In Table Four the average district cost per teacher was reported as a percentage of the average teacher salary for each of the categories analyzed. (Average salaries reported by the Illinois State Board of Education.)

Here are some reasonable conclusions that can be drawn from the 1977-78 Illinois data in Tables One through Four:

1) Collective bargaining and geographic location have a significant impact on expenditures for teacher benefits. However, these variables have little impact on benefit costs expressed as a percentage of salary. The relation between average salary and average benefit expenditures remains relatively constant across all the variables.

2) School districts located in the Chicago area spend more per teacher for health/medical insurance and accidental death protection, in particular. Geographic location, however, is not a factor in disability income or dental insurance costs.

3) Those school districts in the Chicago area that have collective bargaining agreements spend more per teacher for personal leave.

4) Location in the Chicago area is not a factor in average cost per teacher for sick leave, personal leave accumulation, or sick leave banks.

5) Non-bargaining districts in the Chicago area spend more per teacher for board-paid tuition and workmen's compensation. Expenditures for board-paid retirement contributions do not vary in this fashion.

Table One

Comparative Fringe Benefit Costs Per Teacher By Geography and Bargaining Status

		Geography		Bargaining Status	
	Statewide Average	Chicago Area	State Less Chicago Area	With Signed Agreement	Without Agreement
I. ACTUAL COSTS TO LOCAL DISTRICT					
Legally Required Benefits					
Unemployment Compensation	60.00	60.00	60.00	60.00	60.00
Workman's Compensation	64.62	67.38	63.73	67.74	60.99
Teacher Retirement System (See III below)	—	—	—	—	—
Early Retirement	—	—	—	—	—
Mandatory Sick Leave (See next line)	147.21	181.74	139.02	159.17	134.06
Leaves					
Sick Leave (in addition to mandatory)	—	—	—	—	—
Sick Leave Bank	21.17	27.24	15.04	19.06	27.34
Personal/Emergency	21.57	29.41	19.27	22.65	19.88
Convention	29.32	36.35	24.40	29.95	24.35
Union Business	1.11	.98	1.09	.82	1.13
Sabbatical	41.11	32.41	40.43	34.92	25.99
Other Leave	—	—	—	—	—
Insurance					
Hospital/Medical (Individual only)	278.07	315.88	267.37	290.61	263.40
Hospital/Medical (Add. family)	196.71	336.36	154.02	259.58	113.01
Life	48.37	41.21	51.62	54.33	35.44
Accidental Death	16.01	11.28	19.10	20.63	6.45
Disability	68.80	77.12	61.07	72.36	59.53
Dental (Individual only)	68.30	71.10	63.42	64.43	90.00
Dental (Add. family)	56.65	59.46	53.00	55.79	60.75
Other Insurance	—	—	—	—	—
Other Benefits					
Board Paid Retirement	572.55	708.69	528.10	588.83	514.00
Tuition Reimbursement	43.73	60.81	36.16	47.64	37.89
Severance Pay	66.06	69.43	64.58	67.74	48.18
Local Early Retirement	—	—	—	—	—
Other	—	—	—	—	—
II. POTENTIAL ADDITIONAL COSTS TO LOCAL DISTRICT					
Sick Leave (available)	197.88	235.18	189.06	187.97	208.06
Sick Leave Bank	37.54	37.08	42.23	42.76	27.87
Personal Leave	34.78	44.09	32.41	39.02	29.89
III. STATE'S CONTRIBUTION TO RETIREMENT SYSTEM	1649.82	1887.16	1585.23	1766.05	1526.85

Table Two

Dual Variable Comparison of Fringe Benefit Costs Per Teacher (Geography and Bargaining Status)

	Statewide Average	Bargaining Districts		Non-bargaining Districts	
		Chicago Area	State Less Chicago Area	Chicago Area	State Less Chicago Area
I. ACTUAL COST TO LOCAL DISTRICT					
Legally Required Benefits[a]					
Unemployment Compensation	60.00	60.00	60.00	60.00	60.00
Workman's Compensation	64.62	67.91	67.64	65.10	60.54
Teacher Retirement System (See III below)	—	—	—	—	—
Early Retirement	—	—	—	—	—
Mandatory Sick Leave (See next line)	147.21	185.45	149.71	167.88	131.02
Leaves					
Sick Leave (in addition to mandatory)	—	—	—	—	—
Sick Leave Bank	21.17	23.95	12.93	43.82	19.46
Personal/Emergency	21.57	29.40	19.54	29.14	19.04
Convention	29.32	35.77	24.63	35.40	23.00
Union Business	1.11	.86	.78	.90	1.15
Sabbatical	41.11	29.31	37.70	53.45	16.18
Other Leave	—	—	—	—	—
Insurance					
Hospital/Medical (Individual only)	278.07	316.52	278.18	313.46	257.84
Hospital/Medical (Add. family)	196.71	347.19	216.52	292.05	91.52
Life	46.37	39.55	63.88	51.58	32.89
Accidental Death	16.01	10.11	29.24	15.12	3.14
Disability	68.80	74.27	69.88	92.75	47.46
Dental (Individual only)	68.30	69.55	51.62	102.00	87.00
Dental (Add. family)	56.65	48.67	68.00	189.00	18.00
Other Insurance	—	—	—	—	—
Other Benefits					
Board Paid Retirement	572.55	708.69	533.74	—	514.00
Tuition Reimbursement	43.73	58.44	40.03	70.67	32.19
Severance Pay	66.06	81.95	71.26	13.33	50.44
Local Early Retirement	—	—	—	—	—
Other	—	—	—	—	—
II. POTENTIAL ADDITIONAL COSTS TO LOCAL DISTRICT					
Sick Leave (available)	197.88	189.72	188.28	413.14	189.48
Sick Leave Bank	37.54	41.98	47.33	13.83	35.50
Personal Leave	34.78	46.22	35.64	32.02	29.77
III. STATE'S CONTRIBUTION TO RETIREMENT SYSTEM	1649.82	1923.72	1687.60	1742.32	1505.86

Table Three

Comparative Fringe Benefit Costs Per Teacher By District Size

	Statewide Average	District Size (No. of Teachers) 1-50 Teachers	51-100 Teachers	101-200 Teachers	201 or More Teachers
I. ACTUAL COSTS TO LOCAL DISTRICT					
Legally Required Benefits					
Unemployment Compensation	60.00	60.00	60.00	60.00	60.00
Workman's Compensation	64.62	63.39	63.33	62.24	68.46
Teacher Retirement System (See III below)	—	—	—	—	—
Early Retirement	—	—	—	—	—
Mandatory Sick Leave (See next line)	147.21	123.97	158.09	169.57	172.54
Leaves					
Sick Leave (in addition to mandatory)	--	—	—	—	—
Sick Leave Bank	21.17	40.38	10.60	12.14	25.46
Personal/Emergency	21.57	19.47	20.04	22.13	29.33
Convention	29.32	22.81	29.27	28.37	49.71
Union Business	1.11	1.94	.83	.47	1.34
Sabbatical	41.11	84.67	25.19	17.26	44.82
Other Leave	—	—	—	—	—
Insurance					
Hospital/Medical (Individual only)	278.07	269.20	288.42	277.20	281.99
Hospital/Medical (Add. family)	196.71	118.58	179.96	254.55	326.92
Life	48.37	50.83	47.06	52.27	44.06
Accidental Death	16.01	7.76	33.39	8.00	11.41
Disability	68.80	71.10	61.23	77.53	60.36
Dental (Individual only)	68.30	54.25	85.56	63.40	53.29
Dental (Add. family)	56.65	18.00	27.75	116.33	75.33
Other Insurance	—	—	—	—	—
Other Benefits					
Board Paid Retirement	572.55	414.83	550.00	634.36	651.71
Tuition Reimbursement	43.73	40.25	44.75	49.10	42.79
Severance Pay	66.06	50.24	58.04	55.16	65.02
Local Early Retirement	—	—	—	—	—
Other	—	—	—	—	—
II. POTENTIAL ADDITIONAL COSTS TO LOCAL DISTRICT					
Sick Leave (available)	197.88	190.47	178.80	249.06	194.26
Sick Leave Bank	37.54	14.60	47.98	49.27	40.41
Personal Leave	34.78	30.03	33.87	38.00	45.96
III. STATE'S CONTRIBUTION TO RETIREMENT SYSTEM	[illegible]	1506.44	1656.94	1766.22	1936.50

Table Four

Teacher Benefit Costs
As a Percentage of Average Salary by Select Variables
1977-78

Variable (Average Salary)	Actual + Potential Costs			
	For Individual Coverage		Individual + Family	
	Reporting	All Districts	Reporting	All Districts
State Total ($13,305.01)	$3,469.02 25.6%	$2,646.36 19.9%	$3,722.38 28.0%	$2,833.99 21.3%
With Bargaining Agreement (14,242.36)	3,640.76 25.6	2,900.47 20.4	3,956.13 27.8	3,163.23 22.2
Without Bargaining Agreement (12,313.27)	3,201.30 26.0	2,363.25 19.2	3,375.06 27.4	2,464.05 20.0
Chicago Area (15,219.02)	3,994.54 26.2	3,148.37 20.7	4,390.36 28.8	3,498.56 23.0
State Less Chicago (12,784.11)	3,306.98 25.9	2,516.52 19.7	3,514.00 27.5	2,659.09 20.8
Agreement/Chicago Area (15,513.86)	3,956.81 25.5	3,226.66 20.8	4,352.67 28.1	3,609.87 23.3
Agreement/State Less Chicago (13,609.67)	3,367.25 24.7	2,656.28 19.5	3,651.77 26.8	2,872.14 21.1
No Agreement/Chicago Area (14,051.00)	3,460.75 24.6	3,130.11 22.3	3,941.76 28.1	3,444.97 24.5
No Agreement/State Less Chicago (12,144.05)	3,186.33 26.2	2,381.53 19.6	3,295.85 27.1	2,460.59 20.3
1-50 FTE Teachers (12,148.67)	3,116.63 25.7	2,311.74 19.0	3,262.21 26.8	2,412.00 19.9
51-100 FTE Teachers (13,362.39)	3,453.39 25.8	2,680.21 20.1	3,661.10 27.4	2,859.76 21.4
101-200 FTE Teachers (14,243.77)	3,691.75 25.9	2,962.32 20.8	4,062.63 28.5	3,227.25 22.7
201 and over FTE Teachers (15,616.95)	3,876.42 24.8	3,159.37 20.2	4,278.67 27.4	3,504.13 22.4

3/Evaluating fringe benefit programs

Teacher benefit programs can no longer be considered separate from compensation, but rather must be considered as an integral part of salary. Public employers should not be satisfied only with wage and salary information. To obtain an accurate financial picture of employee costs to the district, the employer must add the cost of benefit programs to the wage package.

A benefit's importance to both the employee and employer must be evaluated in terms of cost and value returned. If the benefit dollar is not equal in value to the direct salary dollar, then that dollar has not been spent wisely.

Benefit costs are often intangible and difficult to convert to dollars. Employees may be unaware of the monetary value of their benefits (or even unaware that some benefits are available to them). Additionally, many benefits provide no direct or indirect gain for the employer.

School districts need to redirect their thinking in view of the high cost of "fringe benefits." Specifically, they should:

1) Assess the cost and availability of their benefit programs. (The worksheet on page 9 can be used to determine benefit costs.)

2) Maintain more complete records relative to benefit utilization.

3) Communicate and promote the value of their benefit programs to their employees. (Some districts provide an annual statement to each employee which adds the value of benefits to direct compensation.)

Benefit value

The first step in evaluating a particular benefit is to assess its value compared to spending dollars on direct salary. A valuable benefit commonly provides the following:

- A tax advantage to the employee.
- A lower cost through group rates.
- Protection unavailable elsewhere.

Any benefit that does not provide for at least one of the above advantages probably represents an unwise expenditure of funds. A benefit provided at low cost to the employer and which is non-taxable to the employee is probably a benefit worth considering if desired by a majority of employees.

Many benefits offer tax advantages. Insurance premiums paid by an employer are not taxable. Tax sheltering income through pension contributions or annuities delays taxation until retirement, when tax rates will probably be lower. Some benefits purported to provide tax advantages really do not, because the employee can individually claim tax deductions for them. Health and medical premiums (in part) and tuition reimbursement, are examples of benefit costs that qualify as itemized deductions.

Many insurance benefits can be purchased by the employer at rates considerably lower than those charged to individuals. But low rates alone do not make a valuable benefit. Although disability insurance protection can be purchased at relatively low rates, for example, adequate protection is provided by the Illinois Teachers Retirement System; thus, the value of additional protection may be minimal. By the same token, health and medical insurance may provide no value to the employee with coverage through a spouse employed elsewhere.

Other benefits—such as leaves and some retirement plans—may not be available unless pro-

vided by the employer. If valued by the employee at low cost to the employer, such benefits will usually be worth considering.

Benefit Criteria

It also is helpful to evaluate each teacher benefit on the basis of:

- Feasibility
- Salability
- Negotiability
- Predictability

1) **Feasibility** is an analysis of the dollar value to the average employee compared to a dollar spent for salary. Employees can spend salary dollars at their own discretion. However, the benefit dollar removes this employee option; if not of value to that employee, the benefit dollar may be worthless. If of value to only half of the recipients, a benefit dollar is worth an average of 50 cents. If the benefit dollar buys $1.50 worth of benefits and 75 percent of the employees value that benefit, then the average dollar value per teacher is $1.12 and is worth considering.

Many benefits are high in feasibility for those that use it or need it, but low in average value because only a few take advantage of it (e.g., some leaves, severance pay plans, tuition reimbursement) or the benefits are duplicated elsewhere (e.g., retirement and some insurances). Because of the high incidence of second wage earners in teaching, health and medical insurance (the most commonly provided employee benefit) may in many districts have a very low feasibility rating.

2) **Salability** (political value). To be salable, a majority of the employee group must either receive the benefit, be eligible to receive it and see the eligibility as a benefit, or feel that it provides protection against a future hazard. Spending the employee benefit dollar to appease a limited number of employees, unless exceptionally low in cost (e.g., a few days of union leave), is an unwise expenditure. Such requests are common in negotiations because they represent vested interests which will appear on laundry lists and frequently are demanded by unions to appease minorities within the organization.

Benefits such as tuition reimbursement, sabbatical leave, and convention leave have low salability ratings because relatively few employees receive a majority of the benefit dollar. Sick leave has a high salability as a form of protection, but in practice a minority of the teachers will use a majority of the leave in a given year.

3) **Negotiability.** Because most employee benefits are negotiated with employee groups,

Table Five

Example of Using Benefit Criteria To Evaluate Employee Benefits

	Benefit Criteria			
Benefit	**Feasibility**	**Salability**	**Negotiability**	**Predictability**
Health/Medical Insurance	Low-High**	Medium	High*	High*
Acc. Death & Disability	Low	High	Low	High*
Life Insurance	High	High	High*	High*
Dental Insurance	Medium	Medium	High*	High*
Sick Leave	Medium	High	Low	Low
Personal Leave	Medium	High	Medium	Medium
Professional Leave	Medium	Medium	Medium*	Medium
Union Leave	Low-High**	Low	High*	High*
Tuition Reimbursement	Low-Med.**	Low	Low	Low
Sabbatical Leave	Low-High**	Low	Medium	Low
Early Retirement	Low-High**	Medium	Medium	Low
Severance Pay	Low-High**	Medium	Low	Low
Retirement Contributions Sheltered	High	High	Medium	Low

*If employer contribution is capped at fixed dollar

**Of value only to those who receive it or see value in it

each dollar spent for a fringe benefit should be "traded" for a wage dollar. Where value cannot be determined, or where the cost can escalate without further negotiations, it is difficult to convince the employee that the additional cost is equivalent to a wage increase. The cost of many benefits, such as accumulated leaves, early retirement, and severance pay, cannot be determined. They may even be viewed as "no cost" items. However, even unpaid leaves of absence are not without cost, because unemployment compensation may eventually be required for the temporary teacher.

To provide maximum negotiability, the cost of each benefit should be fixed at a dollar limit per employee. Even though an increase in benefit cost may eventually be absorbed by the employer, the increased cost can then be negotiated and traded for salary dollars. Any benefit which has an unknown cost or is provided without limitation will have a low negotiability value. The wise employer will insist upon maximum negotiability of the benefits provided.

4) **Predictability.** Benefits for which future costs are unknown have a low predictability value. If the choice of where to spend a benefit dollar is between a benefit which is predictable and one which is not, the dollar should be spent on the one with the greater predictability. To minimize the impact of low predictability, the employer should establish limits; that is, cap them at fixed dollars. Better yet, reserve the right to govern access to such benefits as personal leave or tuition reimbursement.

Most types of leaves, severance programs, and tuition reimbursement have low predictability. Therefore, benefits should be limited to a maximum cost per year and a maximum number of employees eligible, or be restricted to specific justifiable and predetermined reasons requiring approval on a case by case basis. Without such qualifications, unpredictable benefits should be avoided wherever possible.

Table Five shows how the four criteria generally apply to some common benefits. Each school district would be well-advised to develop its own version of Table Five based on its peculiar needs and circumstances. Such a table can assist management in bargaining benefit packages and insisting that benefits are involved in negotiation trade-offs for real wages. The relative value (low-medium-high) of a benefit will vary from district to district, depending upon the makeup of the employee group and the controls inherent in benefit administration.

4/Legally required benefits

Unemployment compensation

The Illinois Unemployment Compensation (UC) program is designed to provide financial assistance to people who are unemployed through no fault of their own. Because of the magnitude of the costs involved and the potential for fraud or abuse, school districts must monitor UC claims carefuily.

To establish a valid claim for benefits, a claimant is required to meet the following criteria:

1) Sufficient wages must have been earned during a specified period of time;

2) The claimant must have been separated from employment through no fault of his own;

3) The claimant must have been available for and continuously seeking employment.

It is in the attempt to qualify and maintain qualification that most abuses occur.

In 1980 Illinois benefits were calculated based on earnings received in the four quarters (base period earnings) prior to the quarter in which the claim was filed. To qualify for benefits, base period earnings must be at least $1,400 of which $385 must be earned outside the highest quarter. The minimum weekly benefit amount available for qualified claimants was $15 per week and the maximum weekly benefit was an amount equal to 66 2/3 percent of the statewide average wage with a statutory cap ($177 in 1980). The maximum total claim was an amount equal to 26 x the weekly benefit not to exceed total base period earnings. From the time a claim is filed a claimant remains eligible for benefits for up to 52 weeks. Consequently, a claimant can be employed in either the public or private sector for numerous short periods of time and still remain eligible for benefits from the original claim without refiling.

Here is a simple formula for calculating the maximum available benefits:

High Quarter Earnings = $3,000

High Quarter Earnings ÷ 13 weeks x 66 2/3% = weekly benefit amount

Example:

$3,000 ÷ 13 = $231

231 x 66 2/3% = $155* weekly benefit

*All benefit amounts are rounded upward.

Although school districts have no choice as to whether they should accept this added cost, they do have alternative methods of payment. One method is Direct Reimbursement, which involves quarterly payments for actual claims filed. This method may be advantageous to a district with minimal claims. The other alternative is the Taxable Rate Method. Under the latter, a district pays a quarterly percentage of the gross earnings for each full- or part-time employee covered under the act until gross earnings equal $6,500. (The rate in 1980 was one percent; the maximum obligation per individual employee was $65.) This method may be advantageous to a district anticipating heavy claims as a means of facilitating budget and cash-flow control. The major drawback to this method is that the monies contributed are non-refund-

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NOTE: Facts and figures related to unemployment compensation are subjected to frequent change by the legislature. Current information for calculating costs is available from the Illinois Department of Labor or IASB.

able if unused.

In January of any given year, a district may elect to change the method of payment. However, once a decision is made the district is obligated to use a method of payment for a minimum of two fiscal years.

With the passage of HB 1464 (effective January 1, 1980) school districts have the option of paying UC costs out of the Tort Liability Fund rather than the Education Fund. This approach allows the district to pass on UC costs to local taxpayers, because the tax rate for the Tort Fund is calculated to produce whatever amount of money is required. While this approach relieves the school budget of a substantial drain, school boards owe their local taxpayers a serious effort to control UC costs and the ultimate impact on tax rates. This can be accomplished by:

1) Monitoring unemployment claims closely in an effort to prevent fraud or abuse.

2) Maintaining hiring practices and procedures that reduce unemployment claims.

3) Communicating with legislators in an effort to encourage statutory amendments that prevent a distortion of the original intent of the program.

If it were possible to eliminate staff turnover, there would be no unemployment compensation costs. Because this is unlikely, school districts should concentrate on more realistic options:

1) Emphasize proper hiring procedures.

2) Establish training, counseling, and evaluation programs and procedures.

3) Maintain complete personnel records.

4) Assign responsibility for control of unemployment compensation matters to one person or one department.

5) Know the law.

Once the foregoing have been accomplished, the next step is to closely monitor all claims for unemployment benefits. In spite of today's high unemployment rate, most of those filing claims for UC have not been laid off for lack of work. Voluntary quits and termination for cause (firing) are the leading reasons for UC claims.

If a person who files an invalid claim is to be denied benefits, the employer must protest the claim in a timely manner and present precise information from the former employee's personnel file. Employers, as well as claimants, may appeal UC decisions made by state referees or adjudicators. If the employer's appeal is to be effective, it may require the presence of the claimant's former supervisor at the appeal hearing supported by facts from the personnel file.

Finally, employers should monitor benefit charges. The state provides a summary of claims made against each employer's account, and just as one would match checks against a bank statement, claims should be matched carefully against charges. The employer should also know how much each claim is worth so that the claimant collects no more than allowed. Unmonitored claims and charges lead to higher taxes.

Substitute teachers

Substitute teachers are eligible for UC benefits if they meet the statutory guidelines outlined above. Eligibility is determined on a weekly basis. If not employed elsewhere, full benefits are available to the substitute who remains unemployed an entire week. Partial benefits are available for substitute teachers who work less than the normal work week of a regularly employed full-time teacher.

To control costs, maintain accurate employment records. At minimum, these records should include: the name of the substitute, the dates of employment, and the amounts paid. It is equally important that an accurate record of work refusals be maintained. Whenever an offer of employment is refused, the name, date, and reason for the refusal should be recorded. The documentation of work refusals is necessary to successfully protest an invalid claim. Because a district has only seven days in which to protest an invalid claim, these records must be kept up-to-date at all times.

At the end of the school year, all substitutes who will be re-employed in the fall should be sent a letter informing them of the district's intent to employ them as per diem substitutes at the beginning of the next school year. Such a letter may be viewed by state referees or adjudicators as providing "a reasonable assurance of re-employment" for the next school year. This assurance should establish sufficient grounds for denying a claim filed during the summer months by a substitute teacher.

Workmen's compensation

School district employees are eligible for state-controlled workmen's compensation benefits in the event of work-related injury or disability. Most of the recommendations provided for controlling unemployment compensation costs apply to workmen's compensation. With few exceptions, school districts purchase insur-

ance protection for workmen's compensation rather than self-insure the risks. The cost of workmen's compensation (insurance or claims), like that of unemployment compensation, can be paid out of the Tort Liability Fund.

The relatively safe environment in which teachers work results in few workmen's compensation claims compared to private sector workers. Cost per claim, however, can be relatively high for teachers. One abuse than can be controlled by policy is where the employee injured on the job files a workmen's compensation claim while on full-paid sick leave from the school district. Many school districts establish by policy that they will pay only the difference between the claim and the employee's salary. Whether such practices are allowed may vary from one claim office to another, depending on the prevailing philosophy and procedure.

The average cost of providing workmen's compensation insurance coverage per teacher in 18 Illinois school districts surveyed was $32.53. The cost of this coverage (or the out-of-pocket costs if self-insured) should be considered part of the teacher benefit package.

State retirement system*

Significant benefits accrue to teachers from the state Teachers Retirement System (TRS). Data from a 1977 study support the premise that older teachers want retirement benefits the most, followed in order by sick leave, health insurance, and improved working conditions. Retirement benefits for teachers are determined by calculating the average salary of the four highest consecutive years within the last ten years, multiplied by a percent based on the number of years of service. Beginning August 31, 1979, each annual salary used in the calculation cannot exceed the previous year's salary by more than 20 percent. Disability and insurance benefits are also included in the retirement package.

Funding is obtained through employee and state contributions. The Illinois legislature makes an annual appropriation. The employee pays eight percent of his annual salary (one percent pays for death benefits). The actual cost to the state in fiscal year 1980 was equal to 14 percent of each teacher's salary, because in earlier years the state did not appropriate its full requirement.

Following 1974 changes in the Revenue Code [Section 414(h)], some school districts pay the teachers' contribution in order to shelter it from taxation as current income. The value of the benefit in Illinois in 1980, therefore, was a minimum of 14 percent from the state and it could be as high as 22 percent if the school district pays the teacher's 8 percent outside the salary schedule as a fringe benefit. If the teacher retirement contribution is sheltered and subsequently paid from the existing salary schedule, the amount should be considered as salary and should not be used in computing fringe benefit costs. (See Chapter 7 for a more detailed discussion.)

*For more information, contact the Illinois State Teachers Retirement System.

State disability and survivors benefits

Disability benefits

The Illinois Teachers Retirement System provides three types of disability benefits: temporary, permanent, and accidental. The general requirements for receiving any of these benefits are as follows:

1) The disability must have occurred while employed as a teacher or within 90 days after such employment.

2) A member must have been employed for a specified number of years.

3) No disability benefit is payable to a member who is entitled to receive salary (including sick leave) from the employer.

4) A member who qualifies for a retirement allowance is not eligible to receive temporary or permanent disability benefits.

Temporary disability. To qualify for temporary disability benefits, an employee must have completed three years of creditable service. Such service qualifies the employee to receive 40 percent of his current salary. Benefits cease when any one of the following conditions are met:

- disability ceases;
- the employee reaches age 65;*
- the employee accepts any gainful employment;
- benefits are paid for a period equal to one-fourth of the employee's creditable years of service.

The effective date for receipt of disability benefits is the later of: (a) the 31st calendar day of absence from duty; (b) the day following the last day for which salary is payable; or (c) the date

*During the 1980 session the Illinois General Assembly will be considering legislation that would change all references to age 65 noted in this section to age 70. Such legislation is necessary to bring TRS into compliance with federal guidelines.

notification of disability is received by TRS, if more than 90 days after commencement of disability.

Permanent disability. With the passage of HB 1248 (September 12, 1979), an employee who remains disabled at the end of the maximum period for temporary benefits will be transferred to permanent disability, providing the employee is not entitled to retirement benefits.

The actual benefit amount received under permanent disability is dependent upon the employee's age. If the disability occurs prior to age 55, the benefit is the greater of: 35 percent of the current salary, or the amount computed by the formula used for age retirement allowance, reduced .5 percent for each month the member is under age 55. If the disability occurs after age 55, the benefit is computed the same as the age retirement allowance.

An employee becomes eligible for permanent disability benefits on the day following the last day for which temporary disability is paid. Benefit payments remain in effect for the duration of the disability or until re-employment as a teacher. Employment other than teaching is permitted within limitations on earnings. Reduction or termination of benefits may result if earnings exceed these limitations.

Accidental disability. To receive accidental disability benefits, an employee must not have reached age 65, and the disability must be the result of a duty-related accident or illness. There is no minimum creditable service requirement for this benefit. An employee so disabled will receive benefits equal to 60 percent of his current salary minus any amounts paid under a workmen's compensation program.

The effective date of the benefit is (a) the day following the last day for which salary is payable or (b) the date notification of the disability is received by TRS if more than 90 days after commencement of the disability, whichever is later. Benefits cease when a member is able to engage in gainful employment or until retirement, whichever occurs first. The benefit is payable only if the TRS receives verification that the claim is compensable under a workmen's compensation program.

Survivor benefits

The Teacher Retirement System also provides two forms of survivor benefits to qualified members. One form provides a lump sum settlement. The other is a one-time payment of $1,000, plus a monthly allowance for qualified dependent beneficiaries. Dependent beneficiaries can choose between the two options. Nondependent beneficiaries are eligible only for the lump sum settlement. The amount receivable under either option is determined by a formula which takes into consideration the final salary rate, number of years of creditable service, number of dependents, minor children, the number of years of retirement, and other factors.

To be eligible for the lump sum settlement, death must occur while employed as a teacher, during the first year following termination as a teacher for a reason other than retirement, or while retired. If death occurs while employed as a teacher the settlement consists of the return of accumulated contributions plus one-sixth of the final annual salary rate times the number of full years of creditable service with the TRS up to a maximum of six. If death occurs during retirement, the settlement consists of the return of any accumulated contributions not received by the member as retirement income plus the final annual salary rate reduced by one-sixth for each year or partial year in retirement. The minimum settlement is one-sixth of final annual salary.

To be eligible for the monthly income option, a teacher must have one-and-one-half years of creditable service with the TRS at the time of death. A spouse married to a deceased member at least one year with no minor children qualifies for benefits at age 50. If death occurs while employed as a teacher, the settlement consists of the return of accumulated contributions, plus a $1,000 one-time payment, plus a monthly income benefit. Monthly income benefits vary. A single dependent beneficiary would receive the lesser of 30 percent of the member's average salary or $300 per month. A spouse and one child would receive the lesser of 60 percent of the member's average salary or $500 per month.

Other combinations of dependent beneficiaries would qualify for amounts ranging up to 80 percent of average salary or $500 a month. If greater than the above amounts, TRS will pay 50 percent of the member's earned retirement allowance.

If death occurs during retirement, the settlement consists of the return of accumulated contributions not already received as retirement income, plus a $1,000 one-time payment, plus a monthly income. The monthly income is the lesser of 30 percent of the member's average salary or $300 per month. Neither amount can exceed 80 percent of the teacher's original re-

tirement allowance. If greater than the above amounts, TRS will pay 50 percent of the member's current retirement allowance.

There are certain conditions that may reduce the amounts receivable under either option.

A final note

The availability of these benefits through the Teachers Retirement System should be noted and carefully considered prior to bargaining any similar benefits.

Early retirement

Senate Bill 375 (August 1, 1979) provides for the early retirement of Teacher Retirement System members without a benefit penalty. Prior to this legislation, retirement benefits (with a few exceptions), were reduced if retirement occurred before age 60. The amount of the reduction equalled .5 percent for each month that the member was less than age 60.

The new retirement statute applies only to employees between the ages of 55 and 60 with 20 or more (but less than 35) years of service. Employees retiring after June 1, 1980, but before June 30, 1985, who are within six months of the last day of service for which retirement contributions are required may elect to avoid the early retirement discount by making a one-time contribution to the TRS. The employee who elects this option also obligates the last employer to make a one-time contribution to the system.

The amounts of the one-time employee and employer contributions equal a percentage of the retiring member's last full-time annual salary. Part-time employees' contributions are to be based on a full-time equivalent salary. The contributions of the employee and the employer vary with age and are as follows:

Age 55: Employee contributes 35 percent of salary, Employer contributes 100 percent of salary.
Age 56: Employee contributes 28 percent of salary, Employer contributes 80 percent of salary.
Age 57: Employee contributes 21 percent of salary, Employer contributes 60 percent of salary.
Age 58: Employee contributes 14 percent of salary, Employer contributes 40 percent of salary.
Age 59: Employee contributes 7 percent of salary, Employer contributes 20 percent of salary.

According to this plan the number of employees of a district who may retire in a given year may be limited at the district's option to a specific percentage of those eligible. It is important to note that the actual percentage of allowable retirements may not be lower than 30 percent. In addition, the right to participate must be allocated on the basis of seniority in the district.

Advantages

Reduction in staff is a problem common to many school districts. The U.S. Office of Education estimates that elementary and secondary enrollments in the nation's public schools will decrease 20 percent between 1977 and 1985, from 50 million pupils to 40 million. Normal attrition will reduce the number of teachers who have to be laid off, but other procedures are needed to avoid the trauma of extensive forced reductions. The problem may be eased somewhat in Illinois where the early retirement law encourages some teachers to retire earlier than they normally would.

Here are some potential advantages of the early retirement option as advanced by its proponents:

1) Allows for retention of young (and hopefully energetic and innovative) staff members who would otherwise have to be let go, and creates a pool of early retirees capable of providing services for the school district on a project or contract basis.

2) Saves the school district money. The law encourages the more experienced teacher who is high on the salary schedule to leave. This makes it possible to retain less experienced faculty members who are lower on the salary schedule.

3) Maintains proper age balance among staff. Keeping a proper age mix can be an important long-range consideration. It exposes students and the staff to different viewpoints and teaching methods, and prevents wholesale staff turnover in any given year.

4) Gains support and cooperation of employee unions for school closings by lessening the impact on job security. The crisis atmosphere generated by declining enrollment is reduced when staff can be reduced through retirements rather than layoffs.

5) Exhibits concern for people. Reduction in staff is obtained through increased voluntary retirements rather than through reductions based on seniority.

6) Improves teacher morale by minimizing the possibility of involuntary layoffs.

A word of caution

Although the Illinois early retirement plan

appears attractive to both the board and teachers, the costs must be carefully analyzed. Savings cannot be predicted as simply as many proponents suggest. Some of these proponents consider annual savings to be the difference between a younger teacher's salary and the retiree's salary. To get total savings, they multiply the difference by the number of years to normal retirement age. This assumes that every employee will work to mandatory retirement age, however, whereas the average teacher retirement age in Illinois is only 61 years. (An Illinois teacher can retire regardless of age with approximately 38 years of experience and receive maximum benefits.)

Given the requirement that a teacher eligible for early retirement make a substantial contribution and with current economic uncertainties, it is improbable that this legislation will increase teacher attrition significantly. It is unlikely that many teachers, unless they are secondary income earners, will be willing to accept living on a fixed income. They may prefer to continue their employement to age 60 or beyond in order to gain additional yearly increases in salary which in turn increase benefits upon retirement.

Even if a number of teachers elect to take advantage of the early retirement law, potential savings to the district are not as great as they may first appear. The following example is designed to illustrate this point.

A teacher who would otherwise retire at age 60 retires at age 55 with an annual salary of $20,000.

District savings:		
District saves $20,000 x 5 years		$100,000
Minus one-time employer contribution		20,000
Potential savings		$ 80,000
District costs:		
Cost of replacement teacher		
1st year	12,000	
2nd year	13,000	
3rd year	14,000	
4th year	15,000	
5th year	16,000	
Total salary for 5 years		$ 70,000
Potential savings		$ 10,000

This modest savings—an average of $2,000 a year for five years—does not even take into account the cost of administering the early retirement program.

Sick leave

By statute, school districts in Illinois are required to provide teachers with sick leave. *The Illinois School Code* requires that teachers be given a minimum of 10 sick days per year, cumulative to 90. While these minimums must be met, nothing prohibits school boards from extending benefits beyond the minimums either through bargaining or by policy. In practice, Illinois districts have yearly sick leave allotments ranging from the required 10 days per year to 20, and accrual ranging from 90 to an unlimited number.

Some of the negative implications of increasing the yearly number of sick days and their accumulation beyond the statutory minimums are discussed in the following chapter.

5/Leaves

Leave provisions are generally nigh on the list of union priorities at the bargaining table. Leaves are negotiable in virtually every state that has a bargaining statute, as well as in most states where bargaining occurs without statutory regulation. Leave clauses are highly visible to teachers and of great political value to the union.

Individual union members are generally aware of past practice, current practice, and have some idea of what can be gained by bargaining leaves. In other words, union bargainers generally have wide membership support for their leave demands (unlike some demands that benefit only a few employees or the union itself).

Leave provisions fall into one of two categories:

- Leaves with pay, such as sick leave, sick leave banks, personal-emergency leave, convention leave, union leave, or sabbatical leave.
- Leaves without pay, such as military, foreign exchange, maternity, or parental leave.

Sick leave

Sick leave clauses usually include the number of days of sick leave allowable per year, the number of days of accumulation permissable; and a definition of sick leave. The union's primary aim is to go beyond the statutory minimums for leave days per year (10) and the days that can be accumulated (90). That is, the union will demand unlimited numbers by either stating the principle specifically or with language qualifiers. For example, the proposal, "Each teacher shall receive AT LEAST ten (10) sick days per year," provides for unlimited sick leave. The union may take a similar approach with its accumulation demands. While the cost of yearly leave should be easy to determine by management, the potential cost of increased accumulation sometimes remains unnoticed. Before granting additional accumulation, management should consider the following potential cost factors:

1) Each sick day taken should be costed using the following formula: cost of sick teacher's daily salary plus cost of substitute equals cost of sick day.

2) Extended sick leave sometimes requires a long-term replacement who may acquire tenure.

3) Where a long-term replacement teacher is displaced by the return of a teacher from sick leave, the district will probably be liable for unemployment compensation payments to the displaced teacher.

4) While teachers tend to accumulate sick days (not take them yearly) in the middle of their careers, as retirement approaches and the loss of accumulation is imminent, the use of sick days tends to increase dramatically.

Unions argue that accumulation is essential because long-time employees need protection against catastrophic illness. It should be kept in mind that a 100-day accumulation, for example, provides for up to nine months of sick leave if illness occurs at a time when vacation periods are included in the running of the sick leave subtractions.

Sick leave banks

Sick leave banks are undesirable from a management perspective. Nothing can be done to make them harmless. True, sick leave banks

provide teachers with protection against financial loss from long-term illness or injury. Teachers "deposit" sick days in a bank or pool and then "withdraw" days as they need them. Usually, the deposits are mandatory (e.g., each teacher must put one day into the bank per year), but withdrawals are based on need. Despite appearances, the teacher sacrifices nothing in depositing days in the bank because any "conribution" made by a teacher is available through the bank if needed. Likewise, union claims that a sick leave bank involves little or no cost to the district are invalid. All the cost warnings detailed under sick leave accumulation apply to sick banks. In addition, sick banks present some additional problems of their own.

Disability benefits are available to teachers through the Teacher Retirement System at no cost to the district (see Chapter 4). The union goal, however, is to provide financial benefits approximately equalling that available to the teacher were he able to continue regular employment.

A district establishing a sick leave bank is gambling that it will receive limited use and cost less than the fixed obligation of an insurance premium. This may not be the case at all.

Administering a sick leave bank is a complex process involving a great deal of time and effort. Normally the union is willing to accept responsibility for managing the bank. This offer should be declined. Union control allows the union to receive credit for a potentially expensive benefit provided by taxpayers. Also, such control could be used by the union in a discriminatory manner resulting in a management liability.

Control over the bank should remain totally in the hands of the school board (and delegated to the administration). Depending on the size of the district, administering the bank may require the hiring of additional clerical and supervisory personnel. Such expenses should be included in figuring any costs associated with the bank.

Here are additional questions that must be resolved in dealing with sick leave banks:

1) **Under what circumstances may a teacher withdraw from the bank?** To prevent abuse, sick bank provisions should stipulate that a teacher must first exhaust his individually accumulated sick leave. Following the completion of a sick bank leave, there should be an intervening period during which time a teacher is required to return to work and/or be on an unpaid sick leave for a set length of time before becoming eligible for an additional withdrawal.

2) **How many days can a teacher withdraw from the bank?** A limit on days per teacher is essential. Withdrawals should probably be based on some predetermined criterion, such as length of service to the district. In no case should a withdrawal exceed the end of the school year in which sick leave begins. Without such criteria, the potential cost may well represent an unreasonable risk for the school district.

3) **For what illnesses can the bank be used?** Use of the sick bank should be restricted to illnesses of the teacher. Leave to provide care for someone else (e.g., a family member) should be specifically excluded as a reason for withdrawal. Keep in mind any leave provision applying to long-term disability must also apply to maternity-related absences. Granting sick bank withdrawals for maternity could rapidly deplete the bank and substantially increase costs to the district.

4) **What happens when the bank is depleted?** A specific plan should be developed in the event that days available in the sick leave bank are used up. A plan also should be set forth to deal with the disposition of unused days if the bank were terminated.

5) **What should be the relationship between the sick leave bank and the Teachers Retirement System?** No teacher should be allowed to withdraw days from the bank if he is eligible for any of the benefits provided by the Teachers Retirement System or any other program (e.g., workmen's compensation).

The questions presented above represent only some of the problems associated with sick leave banks. This in part explains why relatively few school districts in Illinois (eight percent) have established banks. In most cases where banks exist, each teacher contributes one day per year to the bank, although at least one district requires an initial 10-day contribution. Experience in Illinois indicates that the average withdrawal is two days per year, although cases of 100 and 200 day withdrawals have been recorded.

Because of the numerous problems associated with sick leave banks they should be avoided. Prior to bargaining this provision, review the benefits available through TRS and determine if additional benefits are needed. Compare the cost of additional disability insurance in relation to the costs of a bank. Significant costs may be saved where disability coverage includes an extended waiting period (e.g., 90 days). It is also

possible that premiums can be reduced through the establishment of a plan designed to coordinate benefits with TRS. It should also be noted that one of the major advantages of disability insurance over sick leave banks is that all costs can be passed on to the employees.

Personal/emergency leave

Personal/emergency leave provisions typically allow for a limited number of leave days per employee (e.g., two) for personal business with the approval of a specified administrator. Reasons usually must be given for the leave and the administration may grant or deny the leave at its discretion. Personal/emergency leave is sometimes employee-controlled in that administration approval is not required and no reasons need be given. In such instances the only restriction governing use is that prior notice be given to the administration that the employee is taking the day off. Obviously, provisions which limit the use of personal/emergency leave are preferable to management.

Where the school district does not bargain with a teacher union, restrictions on the use of personal leave should be established by board policy to serve as a guide for administrators. Bargaining districts should establish similar guidelines in the contract.

Examples of desirable restrictions include:

1) Define personal/emergency leave as being applicable only for business that cannot be conducted except during regular school hours.

2) Require approval in advance to use personal leave for Mondays, Fridays, and the days before and after holidays. Experience shows that most requests for personal leave fall on those days. In addition, districts report that it is most difficult to obtain substitutes for these days.

3) Limit the number of teachers from each attendance center to whom personal leave may be granted on any given day.

Roughly 90 percent of Illinois school districts in 1978 provided personal leave in some form—85 percent of those required prior approval, 11 percent prior notice, and 4 percent required neither. While days per year provided for such leave ranged from one to five in Illinois, the average was two. Most Illinois districts do not permit accumulation of personal leave, although some districts do credit unused personal leave to accumulated sick leave.

Convention leave

Most districts provide a budgeted dollar amount to allow teachers, upon approval, to attend professional meetings or conventions. Generally, such leave is restricted to programs within the teacher's field or subject area.

Additional desirable limits include: maximum dollar amounts for room and meals, mileage rates, registration, number of days per event, and a maximum limit on the number of employees per day or week or per department or building. Although the average cost per teacher in the 1978 Illinois study was only $29.50, this benefit is often restricted when financial problems occur. It can be considered a low priority bargaining issue, because relatively few teachers receive the benefit in any one year.

Union leave

Union leave may be granted, with pay or without, for union leaders to conduct union business.

Union leave is an inexpensive item for the board. It usually involves no more than three to five days per year in board-paid release days and sometimes involves union reimbursement for fractional teacher salary, the cost of substitutes, or the difference between the two. Allowing for such leave gives the union the sense of importance and acceptance (legitimacy) it seeks from management. Union leave is a difficult item to bargain against on a rational basis, because districts usually encourage their administrators and board members to attend specialized meetings or conventions (e.g., administrator seminars, state and national conventions).

On the other hand, the voters may become angered at the use of district funds to support the local union, and may view such an appropriation as exceeding the board's authority.

Sabbatical leave

Sabbatical leave may be granted, with or without pay, to allow an employee a fixed time to pursue an activity which will enhance the employee's job performance (e.g., educational travel, educational advancement). When the leave is granted with pay the amount provided is usually the teacher's regular salary minus the cost of the replacement teacher. Often the employee is required to return to his position after the sabbatical period for a fixed time or forfeit any pay received while on leave.

If agreed to at all, sabbatical leave provisions

should be constructed so that approval will be at the sole discretion of the board. It may appear that sabbatical leave has no non-salary costs. However, management also becomes liable for unemployment compensation and other overhead costs associated with the replacement of teachers.

Military leave

Military leave is a leave without pay designed to protect the job status of the employee called for involuntary military duty. Generally, statutes regulate what the board must provide anyway. While contract language to provide the military leave is a form of double jeopardy, it is not a risky inclusion because its use is infrequent and cannot be controlled by the union.

Foreign exchange leave

Foreign exchange leave provides a leave without pay for teachers who apply to teach in a foreign country, often on an exchange basis. It, too, is used infrequently.

NOTE: One might ask why a board would ever agree to contract language providing for sabbatical, military, or foreign exchange leave. Actually, if there are stipulations that only the board has the right to grant or deny them, they become fairly good trade-offs. The union usually has no intention of using sabbatical, military, or foreign exchange leaves (especially if it agrees to let the board alone decide whether the leave will be granted or denied) and is only interested in showing some contractual gain to its members.

Maternity, parental, adoptive leave

Maternity leave allows for a leave without pay for teachers who become pregnant. Recent court decisions and federal laws place restrictions on what a board may or may not do with respect to beginning and ending dates for maternity leave and restrict the nature of that leave. For example, a board may not legally require a teacher to begin a maternity leave as of a specific month of pregnancy. These issues should be researched fully before a maternity leave provision becomes effective.* There is no federal law and probably no local statute which requires a board to grant a separate maternity leave (as distinguished from using sick leave for maternity purposes). Boards which choose not to do so should be cautioned, however, that they must do so uniformly and that they should make sure other practices of the district do not create discrimination problems.

Parental/adoptive leave proposals represent an attempt by union bargainers to extend mandatory leave availability for child rearing purposes to male teachers and to adoptive parents. To avoid high costs and potential legal ramifications such clauses should be avoided or carefully bargained. Few districts in Illinois have specific provisions for this type of leave.

A word of caution

All leave provisions should be carefully bargained. Loopholes in language make administration difficut and can increase district costs drastically.

Because of unemployment compensation consequences, all leaves without pay should require fixed beginning and ending dates (in writing) before the leave begins. Without these dates established in advance, a demand for return to employment by the teacher on leave, and a subsequent refusal by the board will, in most states, result in an unemployment compensation liability to the board (PL 94-566). If a fixed ending date for the leave is established in advance, the on-leave teacher may be prevented from claiming unemployment compensation until the leave ending date is reached. The ending date may be subsequently extended by mutal agreement without jeopardizing the board's unemployment compensation position. Another advantage is that a fixed ending date for leaves permits the administration to more accurately assess personnel needs.

The duration of all leaves should be kept to a minimum. In districts that are reducing staffs, or where replacement teachers cannot be absorbed into the regular teaching force, unemployment compensation liability may emerge where the replacement teacher has to be released to accommodate the teacher returning from leave. The less pay the replacement teacher has received, the lower the board's potential unemployment compensation liability (see Chapter 4). Thus, it is important to limit leaves without pay to a maximum of one calendar year.

The better management procedure is to create

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*See the following as initial guides: *Cleveland Board of Education v. LaFleur*, 414 US 791; Title VII of Civil Rights Act, S995 Amendment, 1978, PL 95-555; 42 USC 1983.

a single, all-inclusive section (contract or policy) to deal with all leaves without pay requests, and not to establish multiple sections on each type.

Leaves of absence

The following example represents leave of absence language that provides a board with protection from any of the abuses characteristic of loose contract or policy provisions.

> **Leaves of absence.** Leaves of absence may be granted without pay to tenured employees who have rendered satisfactory service to the district and who desire to return to employment in a similar capacity upon termination of said leave.
>
> Each approved leave of absence shall be of the shortest possible duration required to meet the purpose of the leave consistent with a reasonable continuity of instruction for students. Leaves of absence without pay for not more than one year may be granted to tenured teachers according to the following conditions:
>
> 1) Written requests for leaves of absence without pay should be made at least three months before the leave is desired, subject to approval by the board.
>
> 2) Dates of departure and return must be acceptable to the administration and determined prior to initiating the request.
>
> 3) Leaves of less than one month, if acceptable to and approved by the administration, will not require board approval nor three months' notice.
>
> 4) Leaves may be granted for:
>
> a. Advanced study leading to a degree at an approved university.
>
> b. Educationally related travel if the applicant provides an itinerary and an explanation of how such travel will improve the educational program.
>
> c. Military service.
>
> d. Maternity.
>
> e. Other reasons acceptable to the board which will improve the educational program in the district.
>
> 5) Employees on approved leaves will retain seniority. A year's seniority will be granted for the year of the leave if more than _____ days were worked prior to the date of departure.
>
> 6) Employees on such leave may continue insurance benefits if they reimburse the district for any prorata costs of benefits for which they apply.
>
> 7) Employees will not advance on the salary schedule while on any approved leave of absence without pay unless working at least _____ days before departure.
>
> 8) Failure of the employee to notify the district of intention to return at least sixty days before the end of the school year or the semester prior to resuming duties will be considered as a resignation from continued contractual service, thereby removing the board's obligation to re-employ.

6/Insurance

The cost of employee insurance programs continues to rise at an alarming rate. Consequently insurance benefits paid by the school board are a popular union demand. Where older employees prefer retirement security, various studies indicate that younger employees prefer medical benefits. Because of the high cost, insurance programs must be approached with caution. Before providing an insurance program, a careful study should be made to determine employee needs. Unless an insurance program is wisely constructed and carefully monitored, the benefits received by the teachers may not justify the high costs involved.

This chapter will review the more common insurance benefits, examine some insurance benefit patterns and trends, and discuss new concepts in coverage.

Types of coverage

Health insurance

Medical plans for employees protect against expenses arising from illness and injury not associated with employment. Employees are eligible for coverage by these plans when hired or after a specified period on the payroll, typically one month. Dependents can usually be covered also when the employee becomes eligible. Eligible dependents include the employee's spouse and unmarried children. Children's coverage normally starts two weeks after birth and ends at a specified age, typically 19. Under some plans, coverage of mature children may be extended if the child is a full-time student or is disabled.

Two distinct kinds of plans have evolved in the development of employee medical-expense coverage: the base plan and the major medical plan. Although these terms are commonly used together, they represent different approaches to medical insurance.

The base medical plan pays expenses for specified medical services within limits established for each kind of service. For hospital expenses, for example, the daily rate payable for room, board, and general nursing care is defined; the type of accommodation is specified; and the length of stay is restricted. Other hospital expenses have separate limits. Maternity care is subject to separate limits on obstetric, and sometimes a special maximum hospital stay for maternity is specified. Surgical benefits are regulated by a standard fee schedule. Fees for doctors' visits have their maximums. How fully a plan covers the whole medical bill depends on the cost and mix of services used in each case.

In contrast, the major medical plan defines a broad range of covered expenses, encompassing substantially all services that may be required for the successful diagnosis and treatment of an ailment, and addresses the whole bill for such expenses as an entity. Each dollar of covered expenses ordinarily is treated like every other dollar, regardless of what service generates the expense item. (Exceptions are sometimes made, as in the case of mental illness, if treatment does not require hospitalization. This kind of expense, often not covered at all, is reimbursed at a lower rate by some plans.)

The key element in defining a major medical expense under these plans is the case deductible amount. Expenses incurred above the deductible amount during a specified period are eligible for benefits. The excess expenses over the deductible amount are shared by the plan and the employee. The plan's share of this "co-insurance"

is the larger portion—and is now typically 80 percent.

The benefits payable by the plan are usually limited to a specified maximum amount. This maximum benefit may be a limit on benefits payable for each disability during a calendar year, or it may be stated as a "lifetime maximum." Some plans specify two limits, one per disability or per calendar year and the other as a lifetime limit. Lifetime maximums typically renew automatically during a specified period following the expense, and proof of insurability can usually secure immediate reinstatement.

In the 1978 study of Illinois districts, 558 out of 601 districts reporting provided hospital/medical insurance for their teachers. The average premium (benefit value) for reporting districts cost $278 for individual coverage and $475 for individual plus family coverage. In one district, the cost of providing health insurance was over $1,000 per teacher.

A few districts indicated separate major medical protection. However, it is possible that major medical coverage was included in a package plan for some of the districts which provided hospital/medical insurance. This same possibility of inclusion in a package plan exists for all the other types of insurance coverage, particularly life insurance.

Life insurance

Many school districts provide term life insurance for teachers. The purpose of such protection is to provide a death benefit for employees to eliminate the difficult decision usually required upon the death of a teacher—"How long do we continue to pay the salary of the deceased to the family?" Extending salary beyond the death of an employee creates a precedent which could prove very costly to a district. The availability of a lump sum insurance benefit to the beneficiary removes the moral obligation to provide extended salary.

Term life insurance is relatively inexpensive and may be included in a comprehensive medical plan. Of the districts reporting in the Illinois study, 279 provided some life insurance at an average cost of $48.37 per teacher. The amount of coverage ranged from $2,000 to an amount equal to the annual salary of the employee.

In Illinois, the Teacher Retirement System also provides death benefits to members at no cost to the local district. Prior to allocating district expenditures for an additional coverage, the benefits available from the state program should be carefully examined.

Accidental death and disability protection

Relatively few school districts provide accidental death and disability insurance. When available, it is generally included at a minimal cost in a comprehensive insurance program. The maximum cost of such coverage for Illinois districts reporting in 1978 was less than $5.00 per teacher per year.

Long- and short-term disability insurance

Long-term disability coverage was provided by only a few districts in the Illinois study, probably because such coverage is available to the employee at no cost to the local district through the Teacher Retirement System. The cost of additional coverage from a private carrier is expensive. (Illinois districts reported costs ranging from $61 to $180 per employee.) Providing a duplicative benefit is, in this instance, of no value to the employer and of minimal value to the employee.

Short-term disability coverage provides salary payments for employees when sick leave expires. Usually, there is a short waiting period (e.g., three days) between the time sick leave is exhausted and the beginning of benefits. A district would be wise to investigate the cost of such protection as a counterproposal to demands for additional district-paid sick leave. The cost for this coverage is normally less than the cost of providing full pay for an extended illness through increased accumulation of sick leave or the establishment of a sick leave bank. Currently, this benefit is rarely provided by Illinois districts, as there is little need for it. Even though the cost may not be great (especially if coverage is coordinated with the TRS benefits), it is a benefit that relatively few employees will ever need. However, it may be of value to a district as an alternative to extended sick leave provisions.

The union objective for increasing sick leave is to obtain the maximum benefits possible for employees with extended illnesses. An employee who can remain on the employer's payroll will continue to do so in order to accrue benefits rather than apply for disability. Thus, the union aim is normally in favor of extended sick leave, which would allow for the continuation of all benefits. From a school board perspective, extended sick leave provisions and disability insurance are undesirable. However, disability in-

surance does allow the employee to receive an income while leaving the control of other benefits to the employer. The decision as to what benefits, if any, an employee will continue to receive while disabled should be determined prior to the adoption of any disability coverage.

Dental insurance

Dental insurance has become a common employee demand in negotiations. The cost is relatively high and initial premiums tend to be low compared to subsequent increases based on claims. An initial annual premium of $200 was common in 1978. The available plans vary depending on coverage, with some providing only for checkups and preventive dental practice. Almost all have a deductible and exclude orthodontal treatment. Because the need for dental insurance is important to some employees and of no value to others, this benefit may be of low dollar return when paid by the employer. The best approach might be to make it an option available within the insurance program and have the cost paid by those employees desiring the coverage.

Other insurance

A few districts include optical care and eyeglass prescriptions as part of comprehensive plans. However, such coverage is rare and, where available, is usually included in a single premium for comprehensive medical insurance.

A word of caution

School districts should place upper limits on the amounts they pay for insurance benefits guaranteed by policy or negotiated agreement. Without limits, escalating costs have little value in negotiations and must be absorbed in the budget without employees attaching any value to the employer's contribution. A benefit that is not earned has little merit to an employee and may be considered as a benefit earned in the past rather than granted or bargaining periodically. Unless the value of benefits to the employees are maximized, the high cost of insurance protection may be unwarranted.

Benefit patterns and trends

In examining the future of employee benefits, the central question is, "More of what?" Will collective bargaining produce more of what already exists or more of what employees and managements want and need? That is, will improvements come in removing benefit maximums, filling gaps, and adding released time—or through real innovation, creating plans for new or neglected needs and opportunities? There has been movement in both directions in the past.

The most evident trend over the past decade was the uniformity of treatment for all employees under the various benefit plans. For example, the strongest trend in health insurance benefits has been to make more and more employees eligible for full major medical coverage in addition to basic protection.

Factors reinforcing uniformity

Uniformity in benefits is a desirable policy goal. Employers feel that benefit compensation is due the employee because he is a member of the staff. For most districts, however, union economic power is the prime mover toward uniformity. Most managers feel they must offer planned benefit improvements to the union and then await union acceptance or rejection. Rather than negotiate substitutes or provisions of equivalent cost, the parties generally agree to accept the uniform provision. The result is invariably the same when the union demands a completely new benefit.

A second force in the movement to uniform benefits is the power of customer leverage on insurance companies. When the company can write a single policy on a large number of lives, rather than several different policies for different groups, administrative costs decline and the annual upgrading of coverage yields greater rewards.

The government's tax regulations, under which many trustee benefit funds are "qualified," add to the pressure for sameness. These rules generally require that eligibility for benefits be extended to all employees or, in some cases, to very large groups within a district. Variations that benefit only some employees usually do not qualify as tax-exempt benefits. Such institutional reinforcements to uniformity in benefits may break down in the future, but the reaction to these factors over the past 10 years makes it difficult to predict such changes with any kind of assurance.

Health insurance trends

Even if national health legislation is enacted in the 1980's, the basic trends in corporate health

benefit plans will probably continue. This is likely because, at this point, most government planners are modeling their proposals on private group insurance plans. Among current trends:

- Major medical coverage, which is not in effect in a majority of school districts, increased steadily during the decade of the 1970's.
- Many plans went to a full reimbursement for medical services. The rapid inflation in medical costs made individual dollar maximums and fee schedules outmoded almost as soon as they were installed. Administrative savings in claims adjusting offset increased benefit payments.
- Relatively new coverages—e.g., dental insurance, extended post-hospital care, and home-nursing care—have just begun among the private plan coverages, yet they are included in most of the major national health insurance proposals.
- Outpatient care coverage, both medical and psychiatric, has been increasing rapidly since 1965.

There is a definite movement toward eliminating employee contributions for both the employee and dependent coverage. Some 40 percent of urban workers with major medical coverage in the private sector were covered free in 1960. This rose to 63 percent by 1970 and the increase, although slowing down, continued through the 1970's. The planned financing of national health schemes may well affect the trend, however, because most of the proposals now in Congress call for financing either by direct employee premiums or by a payroll tax.

Tentative beginnings have been made in a few new areas of coverage. As yet, none of these innovations have become demands by major unions, but they may well turn up in benefit packages in the 1980's:

- Coverage for prescription drugs, whether in or out of the hospital.
- Special benefits, and even non-insured company payments, for such preventive benefits as annual checkups and tests.
- An increase in benefits for short-term inpatient and out-patient care for detoxification programs for drug and alcohol addictions.
- Special benefits for long-term custodial care for totally disabled children and adults.
- The beginnings of a "grand maximum" concept, which would put one overall cap on a family's out-of-pocket costs whether due to deductible, or co-insurance, or even uncovered fees.

The cafeteria concept

The move toward uniform, universal insurance coverage reveals a widespread reluctance to pursue a "cafeteria" approach to benefit planning—that is, giving the employee some choice as to what elements he wants in his individualized benefit package. Few districts seriously consider allowing employees to custom-tailor benefits to their needs, even on a rudimentary level.

Research reveals a great deal about employee preferences in many areas of fringe benefits, but very real difficulties are encountered in negotiating the purchase of insurance policies with employee choice built in. Similar problems have been introduced into the cafeteria approach by Internal Revenue Service regulations concerning the taxability of certain options in the cafeteria package. Even the few private sector companies where serious work has been done on this concept have been forced to interrupt their experimentation because of recent tax rulings. Yet, the real problem in providing employee benefits is that few benefit dollars are considered equal to the same dollars in compensation by all employees. Not all employees need or want insurance coverage. With the high concentration of secondary wage earners in education, the value of benefit dollars is even less than in the private sector. As the cost of benefits escalate and resources become scarce, the impact of the "low value" benefit dollar increases. The concept of cafeteria benefit plans needs to be fully explored as an option which may increase the value received from the dollars spent on benefits.

Self-insurance

The Illinois Association of School Boards has developed a new type of health/medical insurance program for its member districts. It is unusual because the program lacks a typical insurer, such as an insurance company. Participating districts will reduce their health insurance premiums because the program is not-for-profit and retains a tax-exempt status, thus relieving it of the burden of various insurance taxes and regulations normally placed upon insurance plans. For cost differences, see "Self insuring," page 33.

Risk to a district is non-existent due to the size of the statewide fund from which claims will be paid and the inclusion of a safeguard in the form of stop-loss insurance protection (which insures those claims that might surpass available funding).

The IASB self-insurance program went into operation in early 1980.

Self insuring

Under a typically insured health benefit plan, approximately 35 cents of every premium dollar is used to pay various expenses to which a commerical insurance carrier is subject. These include certain taxes, commissions, overhead, and administrative costs. Insurance companies are also required by law to maintain separate reserve accounts which further limit funds available for claims payment. About 65 cents of the premium dollar remains to pay health claims.

A self-insurance program is not subject to the strict regulations that are required of a commerical carrier. After administrative, stop-loss and conversion expenses, it is estimated that a self-insured plan maintains 80 percent of the premium for claims payment. The following chart compares a typical insured plan with a self-insured plan in regard to legal requirements and basic operational costs.

Requirements and costs	Typical insured plan	Self-insured plan
Premium tax	Yes	No
Commissions and fees	Yes	No
Insurance company field experience	Yes	No
Home office overhead	Yes	No
Claim payment administrative cost	Yes	Yes
Claim reserves	Yes	No
Contingent reserves	Yes	No
Rate stabilization reserves	Yes	No
Conversion costs	Yes	Yes
Profit/surplus contribution	Yes	No
Administrative costs (not found in "overhead")	No	Yes
Stop-loss coverage	No	Yes

7/Other common benefits

In addition to insurance programs and paid leaves, there are other employee benefits which involve costs to the district or the state. Some, such as state and local contributions to teacher retirement systems, involve substantial dollar amounts and comprise a significant portion of the benefit package.

Tax sheltering retirement contributions*

The teacher retirement system in Illinois is financed by contributions from both the individual teacher and the state. A 1974 attorney general's opinion advised that school boards have the authority to make such contributions on behalf of their teachers. In 1977, the U.S. Internal Revenue Service ruled that the income tax due on the retirement system contributions of Illinois teachers can be deferred until retirement (tax sheltered) if certain conditions are met. In a letter dated May 31, 1977, to the Illinois Attorney General's office, A.D. Fields of the IRS said that the Illinois Teachers' Retirement System is a qualified pension plan and that the employer's pick-up contribution to the plan is not subject to federal income tax withholding.

Specifically, Fields said: "Several school districts have agreed to pay, as a fringe benefit, all or part of the required teachers' contributions to the plan. However, these contributions are still treated as employee contributions which were paid by the member's employer, the school district. It is also represented that the take-home pay of the teacher is being increased. The government is increasing the salary of the teacher to the extent of the pick-up. Accordingly, contributions are based on a member's entire compensation, including the contributions picked up by his employer."

Relative to Section 414(h) of the *Internal Revenue Code*, Fields further said:

> "However, some state and local government plans designate certain amounts as being employee contributions even though statutes authorize or require the relevant governmental units or agencies to "pick-up" some or all of what would otherwise be the employee's contribution. In other words, the governmental unit pays all or part of the employee's contribution but does not withhhold this amount from the employee's salary. In this situation, the portion of the contribution which is "picked-up" by the government is, in substance, an employer contribution for purposes of federal income tax law, not withstanding the fact that for certain purposes of state law the contribution may be designated as an employee contribution. Accordingly, the bill provides in the case of a government pick-up plan, that the portion of the contribution which is paid by the government, with no withholding from the employee's salary, will be treated as an employer contribution under the tax law.
>
> "*Code* Section 3402(a) provides that every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with the tables prescribed by the Secretary. Section 3401(a)(12)(A) excludes from the definition of wages remuneration paid to, or on behalf of, an employee or his beneficiary from or to a trust described in Section 401(a) which is exempt from tax under Section 501(a) at the time of such payment unless such payment is made to an employee of the trust as remuneration for services rendered as such employee and not as a beneficiary of the trust."

It would appear that this opinion has answered two basic questions regarding board-paid retirement contributions:

1) If a board-paid contribution plan adheres to the *Pension Code* requirements and relevant tax law, such contributions to the Illinois Teachers'

*A special thanks for helping to prepare the recommendations in this section to David Savner, tax specialist with the Chicago law firm of Rosenberg, Savner and Unikel.

Retirement System (TRS) can be considered non-taxable income for federal income tax purposes; and

2) The teacher retirement system can consider that portion picked-up by the employer as an employee contribution for purposes of computing the retirement system contribution. (The TRS can require the percent to be based on the salary plus the employer-paid contribution.)

Because this benefit has been demanded by teacher unions in most Illinois school districts and sought by other professional employees, it will most likely find quick adoption in union contracts and board compensation policies. Unfortunately, it is not as simple as many union negotiators or school administrators might believe. There are other questions which must be answered.

Specific methods of implementation must comply with standards other than those provided in the 1977 IRS ruling. Each district's specific program must be acceptable. The following questions, although not all-inclusive, speak to some of those issues which must be considered in adopting a tax-sheltered program. Additionally, it will be in the school board's best interest to seek legal counsel experienced in tax law before implementing any program and/or to submit the program to the IRS for approval. The discussion following each question may not be conclusive but reflects current opinion (1980) on the issue.

Is all of the employee contribution (8 percent of salary) shelterable? Probably not. Previous opinions which have considered the entire TRS program have ruled that the one percent paid toward survivor benefits is taxable, limiting employer "pick-up" to no more than 7 percent of salary. The employer can shelter any amount up to 7 percent. The following language is from an April 12, 1977, Springfield IRS office: "Accordingly, it is considered that 7 percent of the 8 percent contribution paid by the board under such an arrangement should not be included in gross income of a teacher for federal income tax purposes. (The additional one percent would be taxable under Section 72(m)(3)(B) of the *Pension Code*, since this portion represents the cost of life insurance protection rather than retirement.)"

What does "pick-up" mean? Tax attorneys have told IASB that "pick-up" implies that only additional compensation can be sheltered. A review of the congressional record seeking legislative intent for using the non-legal term "pick-up" supports the opinion that only additional sums paid over existing salaries for the express purpose of paying employee contributions can be sheltered. Field's opinion also emphasizes an increase in salary. This suggests that those programs which were designed to shelter existing salary schedule monies are not valid. For example, a schedule showing a $10,000 salary in 1979-80 could not be retained with the 1980-81 schedule showing a $9,300 salary plus a $700 contribution to the retirement system. If the schedule were changed to $10,200 for 1980-81, only the $200 increase could be reported as a board-paid contribution, since only that amount is additional compensation. Any plan which reduces the salary of an employee strictly for tax sheltering would be disallowed by the IRS as a tax dodge based on the definition of "pick-up" in the *Pension Code*.

What about scheduled increments—do they represent additional compensation? Maybe, but the answer is not fully settled. Teacher unions have historically argued that increments are vested in the salary program, automatically granted, and accepted as a condition of employment when hired. If this is true, then the increment cannot be considered additional compensation. Past practice might override the vestment argument if you have held employees on step, used the increment as merit, or have reserved the right to hold employees on step. But if your increments are based solely on years of experience and have been automatic, they probably should not be considered as additional compensation.

Can we tax shelter the entire 7 percent even though salary increases will provide additional compensation of less than that amount? No, this question is discussed earlier.

Can we agree to pay an additional 2 percent, 3 percent, etc., above or outside the existing schedule toward retirement contributions? Yes, but this method is not recommended:

1) The TRS contributions are based on both taxable income and non-taxable contribution. Thus, 3 percent becomes 3.36269 percent because of compounding.

2) The discrepancy and/or escalation in salary schedules is increased. For example, a $20,000 employee receives twice the increase of a $10,000 employee. Boards usually try to reduce these differentials, not increase them.

3) As the total salary budget increases, so does the contribution without benefit of bargain-

ing. The wise board always attempts to bargain flat amounts with caps. Agreeing to pay a percentage will escalate indefinitely.

4) The salary schedule will look substantially lower than other districts not paying the retirement contribution. The $10,000 employee still makes $10,000 and the whipsaw tactic next year can be used to bring your schedule up to comparable districts.

5) The benefit is hidden from public scrutiny. The public is bombarded at impasse with the "low pay of teachers." The fact that fringe benefit costs have escalated from 30 to 40 percent will be hard to sell when the public hears that "teachers make less than janitors." A significant benefit like this, particularly when it is still considered gross salary for retirement calculations, should be made a part of scheduled salaries.

How do we maintain the integrity of the salary schedule if only additional compensation can be sheltered? You can shelter additional compensation up to the 7 percent allowable within a salary schedule by first negotiating a new schedule, then determining that portion which is shelterable (with or without increment), and reporting each employee's scheduled amount, IRS gross, and contributions. Although the sheltered amounts will vary within the schedule (higher paid steps will take longer to reach full sheltering), within a few years all employees will have the entire 7 percent sheltered and you will still have maintained a salary schedule.

Can we have board-paid contributions returned to the district if a teacher leaves the system? No, the system calls for "employee contributions" and you cannot—like the private sector—devise your own plan. When paid, that amount becomes due to the individual upon withdrawal from the system and will be taxable when returned by the TRS.

Can the employee be given the option whether to have income sheltered or not sheltered? Not until it is considered as an annuity by the IRS. A given plan for a similar group (teachers, administrators, etc.) will, according to tax attorneys, have to be done for all or none. If not, there is created, in effect, a cash-in-lieu-of-benefit which can destroy the benefit as a tax shelter. This is similar to the insurance issue (or any fringe) whereby a cash-or-benefit option makes the benefit taxable.

Who would not benefit from tax sheltering? Taxes, although deferred, still have to be paid eventually. Younger employees paying taxes in the $10,000 bracket will be taxed in a much higher bracket if, for example, at retirement they receive 70 percent of a $30,000 average salary. They will then pay on a $21,000 salary at a rate certainly no less than today. The employee close to retirement will receive the greatest benefit from tax sheltering.

Can we go in and out of the program as a group? Probably. The only existing requirement is that you inform the TRS relative to how much is paid by the employer and how much by the employee. The burden for recordkeeping and taxation questions for retirees are the TRS's problems. These questions may, of course, be subject to further rulings or regulations.

Isn't there a limit to the amount that any individual can shelter through annuities? Yes, but whether the board-paid contribution to the TRS will be counted toward this maximum is not clear. Also, the allowable exclusion varies from one person to another, so that anyone presently sheltering under another program should seek tax counsel if and when they are covered by your program. It will probably require further litigation and/or clarification to answer this question. Mandatory participation could ultimately exclude this program from consideration as part of the maximum allowable shelter.

School officials seeking clarification of any specific problems associated with the issues raised above or further problems created by adopting specific programs should seek legal counsel and/or direct further questions to the Illinois Attorney General or IASB.

IASB strongly urges school boards, for the reasons discussed above, to shelter retirement contributions from the salary schedule rather than agree to the union ploy of board-paid retirement in addition to or "outside the salary schedule."

For school boards that wish to incorporate IASB recommendations into a tax sheltered plan, while maintaining the integrity of the salary schedule, the following language can be used in contract or policy:

> **Shelter teacher retirement contribution.** From the established salary schedule, according to authority granted by the Pension Reform Act of 1974, Section 414(h)(2) of the Internal Revenue Code, the Board of Education agrees to pay to the Teacher Retirement System on behalf of each teacher, (enter amount in flat dollars as percentage up to seven percent of earnings) reflected for each teacher, and will shelter said amount for tax purposes. The Board will continue to pay to TRS from future established

compensation schedules, on behalf of each teacher seven percent of the teacher's respective gross scheduled earnings. Should any of the above be declared improper by an IRS ruling or opinion, that clause or portion thereof shall be deleted from this Agreement to the extent that it violates the ruling or opinion.

Tuition Reimbursement

According to a 1976 survey by the Educational Research Service, 26 percent of all school districts in the nation provided some form of tuition reimbursement for college credits earned by teachers. Forty-one percent of Illinois districts in 1978 offered tuition reimbursement benefits, with average costs ranging from $14 to $44 per teacher.

Although this is a popular benefit designed to encourage professional growth, it seems to be decreasing in popularity with school managers. This reluctance seems to be due at least partially to two factors: 1) teachers are automatically remunerated for advanced training on salary schedules and paying both for the cost of training and the result of training in schedules may be seen as duplication of reward, and 2) as more and more teachers reach the top of salary schedules and/or advance in age, the desire for training and the need for reimbursement decreases. This has resulted in a low political value and a low priority placed on either increasing or initiating this benefit cost. Tuition reimbursement, therefore, becomes a cost to all employees with benefits shared by only a few, and the dollars available are usually shifted to direct salary payment and distributed more equitably.

Limits are usually placed on the method of reimbursement. Almost all programs limit reimbursement to graduate courses. The most common other limitation is on the dollar cost for tuition (e.g., not to exceed $30 per credit hour). The dollar figure often reflects the tuition rate at a local public university. Other districts may require:

- Administrative approval
- Maximum amounts per year or per two or three year period
- Payment for required courses only
- Limited to legitimate degree programs
- Limited to courses within subject area taught
- Maximum percent of costs (80, 75, etc.)
- Limited to number of credit hours per time period
- A maximum dollar cost to the district per year.

Severance pay

Some school districts provide a lump sum payment upon termination of employment, usually limited to retiring teachers, after a specified number of years of service in the district. Many of the retirement payments are based upon unused sick leave days accumulated at retirement. Although there is a legal controversy over the authority to reimburse for sick leave in some states, in Illinois it has been determined to be legal (*Byerly v. Board of Education of Springfield School District 186,* 65 Ill. App. 3d 400, 1978). The attachment of severance pay to sick leave has been developed to encourage accumulation and discourage abuse of sick leave when it can no longer be accumulated. Another reason for the adoption of severance plans was the desire of some districts to encourage early retirement.

Relatively few districts provide severance payment, other than at retirement. Unused sick leave reimbursement is rarely paid other than as a retirement benefit. Only 8 percent of Illinois school districts paid for unused sick leave upon retirement in 1978, and only 14 percent of the districts surveyed provided severance pay in any form. The cost per teacher per year based on 30 years of service prior to retirement was only $47 per year; however, the payments to individuals were as high as $2,000 and averaged $1,145. If such payment is required a relatively few retirees in a given year could have a substantial impact upon a fixed school district budget.

Most severance benefits compound with years of service in the district. With the passage of the early retirement law, the number of separate lump sum severance pay systems will probably not increase. Districts contemplating this benefit should carefully analyze the age base of their staff to assess the long-range cost implications of a proposed severance pay program. School districts need to be aware that any appreciable severance payment could be used by employees to offset the one-time early retirement contribution required of them. Consequently, severance payments provide an additional incentive for early retirement to employees in the 55-59 age bracket. Since the early retirement law also requires a substantial one-time employer contribution, a school district may

find that it is not financially able to provide for both the employer contribution and a severance payment.

Early retirement incentive programs

The purpose of an early retirement incentive program is to encourage teachers who have reached retirement age—but who would not normally retire at that time—to retire or to consent to a reduction in their work schedules for one or more years. Most plans currently in existence were developed prior to the passage of the new early retirement law and were designed to encourage voluntary resignations as one means of addressing the need for reduction in force. (The advantages of an early retirement plan are noted in Chapter 4.)

Any additional local plan a district might develop beyond that established by state law should probably be designed to encourage those teachers in the 60 to 70 age bracket to retire. A program of this type provides a savings only if it actually encourages retirement before the retiree would normally retire; otherwise it becomes another form of severance pay. The Teacher Retirement System reports that the average teacher currently retires at age 61. This average may be lowered if a number of teachers take advantage of the state's new early retirement plan. If early retirements increase as a result of this plan, there may not be a need for an additional local plan. Economic uncertainty and new legislation allowing teachers to continue employment to age 70, however, may cause teachers to work longer. Those districts confronting a need for a reduction in force with an abundance of teachers aged 60 to 70 may find it financially and politically prudent to adopt a local incentive plan.

Twelve percent of Illinois school districts had developed some form of a local early retirement incentive prior to passage of the state plan in 1979. Costs for such programs are difficult to determine. In three Illinois plans analyzed, the average payment was $20,000 per teacher in the program. If the average experience of retirees was 20 years, then the benefit value would approximate $1,000 per year, and if 10 percent of retirees enter the program, the average cost per teacher per year would be $100. These estimates suggest that the program will become a significant fringe benefit when it is offered.

An interesting program has been developed in two Illinois school districts based on an accumulated point system. Points can be earned for: 1) days/year not used as sick leave, 2) days/year not used as personal leave, 3) sick leave accumulation beyond maximum, 4) years in district, 5) waiver of board-paid insurance, and 6) days of substitution after retirement. A dollar basis is established for points accumulated and paid out over a minimum of three years. Points are doubled at age 55 and gradually decrease in value until they disappear at age 66.

Although on the surface these programs may appear attractive to both board and teacher, the costs must be carefully analyzed (see Chapter 4).

Additional local benefits

School districts have traditionally emphasized fringe benefits, and have developed local benefits in addition to the common ones discussed here. They may pay for certification, provide lunches or cafeteria services, offer annuities, pay mileage greater than typical cost, provide uniforms, and the like. Each district should determine its benefit program costs, make them known to the staff, and convince all employees of its value. Unless these benefits are known and appreciated by the employee, the costs are probably of low value and should be considered as money spent unwisely.

8/Conclusions and recommendations

For a number of reasons, the compensation level of school employees is coming under close scrutiny by the public. Statistics show that many public employees earn substantially more than the average wage in the community. Tax levels needed to support public employee salaries in excess of the community average create taxpayer resentment and a call for greater accountability.

Accountability for costs

Moreover, teachers are becoming better organized and more effective in achieving their compensation demands. In many communities, strikes orchestrated by professional union organizers make headlines that call public attention to all kinds of educational shortcomings —real and imagined. School boards are often charged by a disgruntled public with mortgaging the future of education to provide higher salaries and more benefits for teachers. Numerous studies by IASB (1975, 1976, 1977, 1978) reveal that the most pronounced impact of collective bargaining on teacher compensation in Illinois appears to be in the area of employee benefits rather than direct salary.

This raises the question: Can public employers continue to afford the recent growth in compensation levels? Unlike the private sector, there are no productivity advances to offset pay increases in a labor-intensive school system. The problem is further intensified when increases in private sector compensation levels are carried over to the public sector through labor competition.

Significant control over income and expenditures provides an important advantage in the private sector, where the price of a product can be increased and/or output and employment reduced as necessary to achieve profitability. School boards lack such controls. When school revenue decreases, a choice must be made between deficit spending or reallocating available resources. The public—already disturbed by seemingly high levels of teacher compensation—is thus confronted with a reduced level of educational services. Such a situation is likely to lead to citizen demands for more accountability and contraints on school spending.

Unfortunately, educational expenditures cannot be easily reduced. Factors such as seniority rights that protect the highest paid teachers, fixed operating costs, and federal and state requirements maintain continuous pressure on school expenditures. Any effort to control school spending should include a careful analysis and evaluation of a district's fringe benefit program in order to determine whether it serves its intended purpose at defensible cost.

The following information taken from the 1978 study is offered as an aid in examining fringe benefit programs. Of the 603 districts surveyed:

1) A majority of school districts in all categories analyzed provided hospital/medical insurance, life insurance, sick leave, personal/business leave, convention/conference leave and leave without pay.

2) A majority of school districts in all categories analyzed did not provide accidental death protection, disability protection, dental insurance, sick leave banks, voting time leave, disability leave, maternity leave, military/guard duty leave, board-paid teacher retirement contributions, severance pay, or local early retirement incentive programs.

3) The cost of employee benefit programs as a percent of salary ranged from 26.8 to 28.8 percent for districts reporting benefits and from 19.9 to 24.5 percent when adjusted for districts reporting no benefits available.

4) Differences in expenditures for teacher benefits were more affected by the range in average teacher salaries than by variations in cost.

5) The presence of a collective bargaining agreement was a significant factor in increasing the availability of board-paid teacher retirement contributions, severance pay, most leave categories, and hospital/medical insurance.

6) There was no significant impact on the cost of employee benefits due to the presence or absence of a collective bargaining agreement.

7) Location in the Chicago area was a significant factor in increasing the availability of insurance benefits in bargaining districts, sick leave banks, sabbatical leaves, board-paid tuition, and early retirement programs.

8) Location in the Chicago area was a significant factor in increasing the cost of health/medical insurance, life insurance, sick leave, sick leave bank, personal leave, and board-paid tuition in larger school districts.

9) High school districts generally provided more employee benefits when compared to elemen-

tary and unit districts.

10) School district size was a more significant factor in the availability of employee benefits in districts with collective bargaining agreements than it was in districts without collective bargaining agreements.

Recommendations for controlling costs

Here is a summary of recommendations for controlling teacher benefit costs:

1) **Unemployment compensation.** The high cost of this benefit together with its potential for abuse calls for stringent controls. Costs can be controlled by:

- Assigning overall responsibility for control to one person, or at least one department;
- Monitoring claims closely;
- Revising hiring practices and procedures, if necessary;
- Communicating with legislators in an effort to encourage amendments to prevent abuse.

2) **Workmen's compensation.** Most of the recommendations for controlling unemployment insurance costs are appropriate for workmen's compensation. One area for potential abuse that must be controlled by policy is the possibility that employees injured on the job may file a claim for workmen's compensation while on full-paid sick leave from the district. By policy, districts should establish that they will at most pay the difference between the claim and the employee's salary.

3) **State teacher retirement system.** Sustantial retirement, disability, and survivor benefits are available to teachers through the state teacher retirement system at no cost to the district. Awareness of these benefits can prevent unnecessary and costly duplication. Every effort should be made by management to communicate the value and availability of these benefits.

4) **Early retirement.** The cost of this state required plan is greater than its advocates claim. A careful analysis of this plan should be undertaken to determine its potential impact on your school district.

5) **Sick leave.** By statute, school districts must provide teachers with a minimum of 10 sick days per year, cumulative to 90. Whenever possible, school districts should avoid increasing the number of days allowable per year and accumulation. Be especially careful with contract language in this area. The formula for determining the cost of a sick day is: teacher's daily salary plus cost of substitute equals cost of sick day.

6) **Sick leave banks.** Regardless of format, sick banks are costly both financially and in terms of potential loss of management control. Protection from long-term disability is available through the teacher retirement system at no cost to the district. If necessary, additional disability protection can be obtained at a low cost from private carriers. Plans can be formulated which coordinate additional coverage with TRS benefits at an even lower cost to the district.

7) **Personal/emergency leave.** The granting of personal leave should be subject to strict limitations. Desirable restrictions include:

- A statement defining personal/emergency leave as being applicable only for business that cannot be conducted except during regular school hours;
- A restriction making it impermissible to use personal leave on certain days and/or at certain times of the year;
- A limit on the number of teachers from an attendance center to whom personal leave may be granted on a given day;
- A limit on the number of days (one or two) of personal/emergency leave for which an individual teacher is eligible.

The cost of a personal/emergency leave day should be figured the same as for a sick day.

8) **Convention leave.** Such leave should be subject to prior approval and limited to programs within the employee's teaching field or subject area. Limitations relative to maximum dollar amounts for rooms, meals, mileage, registration, number of days per event, and number of employees eligible should be established in advance and carefully monitored.

9) **Union leave.** If union leave is to be granted, specific limits on the number of days per year and the number of teachers who can attend must be established. Union leave is sometimes granted with pay and sometimes without.

10) **Sabbatical leave.** Sabbatical leave provisions should be constructed so that the granting or denial of them is at the sole discretion of the board. Management should be aware that there are costs associated with this leave.

11) **Leaves without pay.** Avoid establishing multiple contract sections for leaves without pay. The better management procedure is to create a single all-inclusive section to deal with all leaves without pay.

12) **Insurance.** School districts should always seek to establish a cap or limit on the amount

of the premium paid by the employer. This cap should be stated in flat dollars. Avoid agreeing to percentage payments or cost increase clauses.

13) **Hospital/medical insurance.** The high cost of this benefit may be unwarranted unless the value of the benefit to employees is maximized and there exists a real need for the protection. (e.g., Many teachers who are secondary wage earners are covered by their spouses' insurance. Consequently, this expensive benefit has no value to them.) An analysis of your insurance coverage and the needs of your staff will indicate whether or not the money would be better spent elsewhere.

14) **Life insurance.** Term life insurance is relatively inexpensive and may be included as part of a comprehensive medical plan. Survivor benefits available from the state retirement program should be carefully analyzed before district expenditures are allocated for additional coverage.

15) **Accidental death and disability protection.** Relatively few school districts need to provide accidental death and disability insurance beyond that provided through the state retirement system.

16) **Dental Insurance.** Dental insurance has become a popular union demand. Although initial costs may be low, premiums will increase dramatically. Relatively few districts provide this benefit due to its high cost.

17) **Other insurance protection.** A few districts provide prescription and/or optical coverage as a part of a comprehensive insurance plan. Normally they are low priority union demands.

18) **Self-insurance.** To combat rising costs, the Illinois Association of School Boards offers a health/medical benefit program that eliminates most of the costs not directly related to claims.

19) **Tax shelters.** The Illinois Association of School Boards urges school boards to shelter retirement contributions from the salary schedule rather than agree to union proposals for board-paid retirement in addition to or "outside the salary schedule." Board-paid retirement outside of the salary schedule places the board at a distinct disadvantage at the bargaining table because: it has a compounding effect; costs are hidden from public view; and costs are difficult to calculate and easy to overlook.

20) **Tuition reimbursement.** This once popular benefit designed to encourage professional growth now seems to be decreasing in popularity with school managers. The decline in popularity is due at least in part to two factors: 1) teachers are already remunerated for advanced training by automatic advancement on salary schedules, and 2) as more and more teachers reach the top of salary schedules and/or advance in age, their desire for training and the need for reimbursement decreases.

21) **Severance pay.** Some school districts provide a lump sum payment upon termination of employment. Usually it is limited to retiring teachers after a specified number of years service in the district. In most districts payments were originally designed to combat the abuse of sick leave. Severance pay also has been used to encourage early retirement. With passage of the state's early retirement law, severance pay may not be needed. In a very few instances severance pay for teachers in the 60 to 70 age bracket might be desirable as a retirement incentive.

22) **Additional local benefits.** School districts have traditionally emphasized fringe benefits, and many have developed local benefits in addition to the common ones discussed above. Each district should determine its benefit program costs and make both costs and value known to the staff.

In addition to monitoring specific benefits as suggested above, here are some other steps that Illinois school boards can do to contain the growing cost of employee benefits:

1) The IASB method for determining the costs of fringe benefits (see Chapter 1) should be adopted by all Illinois school districts to permit valid cost comparisons.

2) School districts should maintain complete records relating to the cost and actual use of employee benefits.

3) School districts should communicate the value of their benefit programs to their employees and annually update them.

4) School board negotiators should know and use the school district's cost for employee benefit programs in bargaining economic proposals.

5) School boards should be alerted to the potential, long-range cost of benefit programs which do not accrue direct costs but which accumulate liability in the future (e.g., severance pay and accumulated leaves).

6) Additional research is needed to determine the actual and potential cost of severance pay provisions.

7) Ongoing research is needed to compare the value of employee benefits with similar benefits in the private sector and other public sector agencies.

8) Extensive research is needed to determine the cost and value to both the school district and to the employee of the early retirement program and teacher retirement benefits.

9) Analyses should be made to compare district cost for unemployment insurance protection both for districts electing the reimbursement method and those electing the standard rate method.

10) To evaluate a specific employee benefit, a school district should apply the following four criteria:

• **Feasibility.** Compare the benefit's dollar value to the average employee to the same dollar spend for salary.

• **Salability** (political value). To be salable, a majority of the employees must either receive the benefit or be eligible to receive it, and must perceive the eligibility as a benefit or feel it provides protection against a future hazard.

• **Negotiability.** Because most employee benefits are negotiated with employee groups, each dollar spent for a fringe benefit should be "traded" for a wage dollar.

• **Predictability.** Benefits for which future costs are unknown have a low predictability value. If a choice of where to spend a benefit dollar is between a benefit which is predictable and one which is not, the dollar should be spent on the one with the greatest predictability.

A final note

Having gone through the work of costing out the expense and value of fringe benefits that employees receive along with their salary, the next step is to communicate this information to employees in the form of a Personalized Benefit Statement. The board president can write to each employee describing exactly what benefits he received or will receive. The form letter below represents one format a district could use to communicate the value of its benefit program to its employees.

Reporting the value of fringe benefits*

Dear Average Teacher in Ideal School District:

Your salary for 1979-80 is $12,973 for your performance and service on BA Step _____ as a _____ teacher. Along with your salary as a regular teacher, you receive _____ as a _____ (extra-curricular activities).

As a teacher in Ideal School District, you receive many benefits:

1. You currently receive 12 days sick leave for use while you are ill, each worth $64.86 which is worth a total of $778.32. In addition, you have _____ days accumulated sick leave.
2. You are eligible for 3 personal days providing application is made according to the contract and past practice. This benefit is worth $194.58.
3. You and your family now receive full health care coverage with _____ plan. This benefit is worth $400 per year.
4. This year, a prescription drug plan was implemented for yourself and your family, worth $90 per year.
5. You are eligible for sabbatical leave since you have been in the district 7 years. Should you desire this benefit, please make application to the superintendent.
6. You are currently enrolled in the Master's program at _____ College and studying _____. Last year you received $225 tuition reimbursement and $45 reimbursement for books. You may take up to 6 credits this year with a maximum of $400 tuition reimbursement.
7. If you had _____ years of service and could retire this year, your pension would be _____.
8. Should you become disabled, your disability would be _____.
9. Life insurance benefits for your family would be _____.

These benefits are worth approximately $_____, or _____ percent of your salary.

We appreciate the service you have given to the district and hope that you will continue to contribute to the successful education of children in Ideal School District.

*Reprinted with permission from *Costing Out the Labor Agreement*, a publication of the New Jersey School Boards Association.

a special section on

NEGOTIATING SALARIES

Negotiating salaries

A single compensation plan that provides for specific salary increases based on specific criteria—most commonly years of experience and educational training—is typically used for all teachers in a given district. Few districts have *differentiated* salary schedules applying to separated groups of teachers. Where these do exist, they are usually used to compensate probationary teachers on a schedule separate from non-probationary (tenured) teachers. Other factors used to differentiate classes of teachers are rare and have been discarded because they were either discriminatory (e.g., family status) or unjustifiable (e.g., grade level or subject area).

There are six major components in negotiating and administering a salary schedule. They are:

- The basic characteristics of salary schedules.
- Salary schedule bargaining tactics.
- Information required for salary negotiations.
- Methods of initial placement on the schedule.
- Methods of advancement on the schedule.
- Salary supplements.

Characteristics of salary schedules

Salary schedules were developed to provide equal pay for equal work, encourage professional growth, discourage staff turnover, and eliminate the requirement for appraisal and merit decisions. Such schedules are easy to administer, and school boards have accepted the generalization that more experience and training result in better teaching.

Although justified in earlier years, these compensation principles may no longer apply to most school districts. The teacher shortage of the 1960's has become an oversupply in many teaching areas, eliminating the need to reduce turnover. Increasing demand for accountability combined with due process requirements have forced most school districts to evaluate teaching performance with or without a bearing on compensation. Although there may be value received both to the employer and the district from advanced training, it cannot be assumed that any particular course is valuable to any particular employee. Retraining, upgrading, or developing new techniques and insights should certainly be encouraged, but few compensation schemes relate to improved performance. They are generally automatic and lack administrative control. Training unrelated to one's teaching area is questionable as a basis for increased compensation or as a factor in improved teaching performance. Yet, such training continues to be rewarded on many salary schedules.

There is also some relationship between performance and experience. Employees who have given years of faithful service to the district deserve some reward. Probationary levels of compensation should be lower than those who have proven their ability and value to the district. However, reliance on years of experience as the sole criterion for compensation also needs to be examined. Limitations must be placed on advancement by seniority. There must be a justifiable range between entry-level salaries and maximum salaries for doing essentially the same job. Continually adding additional experience steps to the salary schedule will appease those employees who would not otherwise receive incremental increases, but may not be justifiable based on performance and may prohibit realistic entry-level salaries by shifting available dollars elsewhere.

The basic assumptions that created the traditional salary schedule may no longer be valid, yet in most school districts that schedule remains intact. There are two basic reasons for this. First, no one has developed a better compensation scheme acceptable to employee and employer. Secondly, collective bargaining tends to preserve the status quo. Collective bargaining is essentially conservative and third parties (arbitrators or factfinders) in particular do not like to change existing practices. Public employer negotiators have had little impact on teacher compensation, due in large part to their inherently weak bargaining posture based on the need to respond to their political constituency, to avoid impasse at all cost, and to accommodate issues rather than confront them. Lacking a sound basis for changing the system, it is much simpler to redistribute new money to the existing system.

The traditional salary schedule reflects these general characteristics:

- **Multiple lanes.** A series of "lanes" or tracks provides progressively higher salaries for progressively more college credits and degrees or other forms of professional growth.
- **Indexing.** Credit for years of service accumulate with each annual step rewarded with a dollar amount or percentage of the base salary. In a relatively few districts the indexing is compounded with the percentage increase for each year applied to the preceding year rather than to the beginning salary.
- **Truncation.** Many salary schedules are stair-stepped, allowing for more annual salary increases based on experience in the advanced education lanes. This further increases the reward for additional college training.
- **Self promotion.** Salary increases are related solely to experience and training, both controlled by the individual teacher without any requirement for improved performance. Thus, teachers promote themselves within the salary schedule.
- **Equivalency.** Some districts grant "equivalent" salary increases for service and training beyond the salary schedule, in effect, stretching the schedule to an infinite number of lanes.
- **Continuation.** Because credit for experience and training is automatic, the salary schedule guarantees salary increases beyond the specified contract period—forever, in fact. When agreement on a new schedule has not been reached and a new year begins, most school districts grant the increment on the old schedule when they have to pay teachers in the new year. The old schedule remains in force, and in some cases where boards have sought injunctions for teacher strikes over a salary freeze (no increment) courts have, under the concept of *status quo,* forced the payment of the increment on the previous year's salary schedule.
- **Longevity.** The oversupply of teachers and the resulting lack of mobility between districts (and hence low turnover) have increased the number of teachers who have used up all of the scheduled increases for years of service. They are "frozen" for further vertical movement. As their numbers increase so does their bargaining strength, resulting in union demands to add more vertical or longevity steps—additional amounts at certain levels of experience beyond the scheduled steps—for example, 20, 25, or 30 years. Although a demand for longevity raises really indicates that the salary schedule no longer functions adequately, it is an easier way to adjust to the failure and appease the "frozen" teachers than to seek different compensation alternatives. Although resisted by school boards, the demand for longevity raises will increase as the age of the teaching staff increases due to reduced turnover and layoffs based upon seniority.

Salary bargaining tactics

At the bargaining table, the salary schedule can be altered by different approaches for distributing dollars within the schedule.

School boards usually find their efforts ineffectual when they try to dismantle the salary schedule by removing lanes and/or steps, making salary increases smaller, eliminating longevity and truncations. These attempts usually result in consternation, impasse, and even strikes unless done very slowly and at extremely high cost in new dollars.

The salary freeze is another school board bargaining tactic which is certain to create conflict. The salary schedule is not altered, but no one is allowed to move either horizontally or vertically. Unfortunately, freezing the schedule is a stop-gap measure, because movement is just delayed a year and the increases due will be collected in the future.

Rather than try to eliminate the traditional salary schedule in the face of resolute union resistance, most school boards find greater success in seeking new approaches to distributing dollars within the schedule.

Equal percent increases reward everyone in equal proportion and give a better break to peo-

ple at the end of salary lanes where step increases are not available. Compared to putting the same money into base increases, equal percent increases will stretch the schedule in both directions—a lower base and a higher top—enlarging the salary difference between the beginning teacher and most experienced teacher. It also gives the greatest reward to the teacher not quite at the top who still gets an automatic step increase as well as the percent increase at the next step.

Across the board increases where each teacher gets the same dollar amount reverse the effect of the equal percent increase and compress the difference between base salary and top salary, rewarding the inexperienced teacher to a greater degree than the experienced teacher.

Both of the above approaches create a major change in most salary schedules. They theoretically eliminate any indexing numbers within a schedule. (Only an increase in the base salary with each succeeding step altered by the indexing system retains the integrity of the index.)

Salary schedules can be either "compressed" or "stretched" by applying *increasing* or *decreasing percentages,* either horizontally or vertically. This tactic is usually looked upon with disfavor by teacher negotiators unless it tends to reward the power block and/or a vast majority of the teachers.

Many school districts attempt to reduce the reward for college credit at the bargaining table. Not only is the value of automatic increases for college courses questioned, many teachers have not made the effort at self promotion and are frozen at the bottom of bachelor degree lanes. Where this condition exists, it is not difficult to bargain limitations on teacher advancement to higher paying lanes. This can be done by restricting the number of teachers allowed to move to another lane in a given time period, to increase the number of credit hours required to move from lane to lane, or simply freeze lane movement (no more can move into the lane). Another tactic is to tighten up the administration of credit by limiting credits to those earned in one's teaching field, removing professional growth requirements and/or tuition reimbursement, limiting the number of advanced degrees allowed per department or school, and restricting credit to only accredited graduate degree programs approved by the administration.

Although many of these changes are threatening to a teacher organization, local conditions may make them low priorities for the faculty as a whole. If total dollars are sufficient, resistance may be minimal and trade-offs can produce gradual alterations in compensation practices (e.g., with enough additional dollars put in all "cells" of the schedule, the union may agree to eliminate the indexing factors). Even if unsuccessful, challenging the status quo allows school board negotiators options other than simply adding more and more to existing inequities—the normal salary bargaining practice.

Salary information required for negotiations

Negotiators should prepare in advance for negotiating salary schedules. Some of the basic tools for salary negotiations include the following:

1) **Scattergram**—This can be as simple as putting the number of teachers at each scheduled salary location on an existing salary schedule. It usually includes such summary information as lane totals and the potential or average number who will move to higher paying lanes. The scattergram can help analyze where salary demands will come and where the greatest number of teachers benefit from a given salary proposal. It is also an absolute necessity for costing any salary proposal or counterproposal. An example is provided in Exhibit A.

2) **Existing salary schedule cost**—Most negotiators prefer to negotiate from a total dollar package with a maximum dollar amount approved by the school board serving as the parameter for salary increases. This requires the exact calculation of existing salary costs. If this figure is not budgeted specifically for the teacher unit being considered, it can be calculated from a scattergram by multiplying the number of teachers at each location by the salary amount at that location and totaling the dollar cost at all salary locations.

3) **Fringe benefits**—School districts rarely include fringe benefit costs when announcing salary schedule costs. Each existing fringe benefit cost should be calculated, particularly those which are in the new teacher proposal. The cost of each fringe benefit improvement should be calculated using the formula in Chapter 1. First calculate the cost of existing benefits and then determine the cost of benefit improvement. These costs should then be made known to the teacher negotiating team as well as the board, and considered as a total cost of salary improvement when setting parameters or offering increases in salaries.

Exhibit A—Typical scattergram for large school district

Step		Col. 1 BA	Col. 2 BA & 8	Col. 3 BA & 16	Col. 4 BA & 24	Col. 5 MA	Col. 6 MA & 8	Col. 7 MA & 16	Col. 8 MA & 24	Col. 9 MA & 32	Col. 10 MA & 40	Col. 11 MA & 48	Totals
1	a.	10,100	10,600	11,100	11,600	12,100	12,600	13,100	13,600	14,100	14,600	15,100	
2	a.	10,600	11,100	11,600	12,100	12,600	13,100	13,600	14,100	14,600	15,100	15,600	
	b.	22											22
	c.	233,200											233,200
3	a.	11,100	11,600	12,100	12,600	13,100	13,600	14,100	14,600	15,100	15,600	16,100	
	b.	20	1	1		2							24
	c.	222,000	11,600	12,100		26,200							271,900
4	a.	11,600	12,100	12,600	13,100	13,600	14,100	14,600	15,100	15,600	16,100	16,600	
	b.	20	4	1		4		1					30
	c.	232,000	48,400	12,600		54,400		14,600					362,000
5	a.	12,100	12,600	13,100	13,600	14,100	14,600	15,100	15,600	16,100	16,600	17,100	
	b.	19	8	4	4	6	1						42
	c.	229,900	100,800	52,400	54,400	84,600	14,600						536,700
6	a.	12,600	13,100	13,600	14,100	14,600	15,100	15,600	16,100	16,600	17,100	17,600	
	b.	4	11.25	5	3	5	2	1		1			32.25
	c.	50,400	147,375	68,000	42,300	73,000	30,200	15,600		16,600			443,475
7	a.	13,100	13,600	14,100	14,600	15,100	15,600	16,100	16,600	17,100	17,600	18,100	
	b.	10	16	12	7	11	5	2	2			1	66
	c.	131,000	217,600	169,200	102,200	166,100	78,000	32,200	33,200			18,100	947,600
8	a.	13,600	14,100	14,600	15,100	15,600	16,100	16,600	17,100	17,600	18,100	18,600	
	b.	8	12	6	9	7	4	1		1			48
	c.	108,800	169,200	87,600	135,900	109,200	64,400	16,600		17,600			709,300
9	a.	14,100	14,600	15,100	15,600	16,100	16,600	17,100	17,600	18,100	18,600	19,100	
	b.	9	10	7	2	9.75	7	2	1.50	1			49.25
	c.	126,900	146,000	105,700	31,200	156,975	116,200	34,200	26,400	18,100			761,675
10	a.	14,600	15,100	15,600	16,100	16,600	17,100	17,600	18,100	18,600	19,100	19,600	
	b.	36	53.25	6	8	15	9	2	3	1	4	1	139.25
	c.	511,000	804,075	124,800	128,800	249,000	153,900	35,200	54,300	18,600	76,400	19,600	2,175,675
11	a.			16,100	16,600	17,100	17,600	18,100	18,600	19,100	19,600	20,100	
	b.			59	59	11	7	4		3	2	1	146
	c.			949,900	979,400	188,100	123,200	72,400		57,300	39,200	20,100	2,429,600
12	a.					17,600	18,100	18,600	19,100	19,600	20,100	20,600	
	b.					70.75	54.25	5	2	1.50	2	2	137.50
	c.					1,245,200	981,925	93,000	38,200	29,400	40,200	41,200	2,469,125
13	a.							19,100	19,600	20,100	20,600	21,100	
	b.							43.50	34.50	4	1	2	85
	c.							830,850	676,200	80,400	20,600	42,200	1,650,250
14	a.									20,600	21,100	21,600	
	b.									30.50	24	65.25	119.75
	c									628,300	506,400	1,409,400	2,544,100
Totals	b.	147	115.50	103	92	141.50	89.25	61.50	43	43	33	72.25	941
	c.	1,645,200	1,645,050	1,582,300	1,474,200	2,352,775	1,562,425	1,144,650	828,300	886,300	682,800	1,550,800	15,534,800

a. – Scheduled salary amount in dollars
b. – Number of teachers at that level
c. – Total dollar cost at each level (number of teachers x salary amount)

4) Change in work force factors—It may be disconcerting to find that your salary schedule cost is not the same as the teacher negotiating team's figures. The usual reason for such discrepancies is that management uses actual costs for teachers now employed, while teacher negotiators wanting to reduce the costs as much as possible compute the cost including turnover. Each teacher who resigns, takes a leave of absence, or is laid off changes the composition of the salary schedule scattergram. If each teacher who leaves employment is replaced by a beginning teacher at the base salary cost, then the anticipated salary cost is reduced by the difference in their salaries. If the teacher leaving the district is not replaced, then the entire salary can be taken from the existing costs.

Initial placement on the schedule

Upon initial employment in a school district, a teacher is usually placed on the existing salary schedule at a level commensurate with previous experience and academic training. From that initial placement, the teacher will advance to higher paying lanes when proof of additional training is shown, and vertically with experience in the district.

Initial placement on the salary schedule is usually based on the following factors:

1) Credit for previous experience as a full-time, regularly credentialed teacher. Usually a teacher must have taught 75 percent or more of each school year to be credited with a year of prior service. Most school systems will place a limit on the number of years of prior teaching service that will be recognized for initial placement on the salary scale. Credit may be given for previous teaching experience within the school system, within the state, or in the nation.

2) Credit for comparable experience. Some districts make salary placements for experience related only to the area of teaching assignment,

such as public library experience for school librarians, recreational experience for physical education teachers, or teaching in private accredited schools.

3) Credit for military service. Many salary schedules grant a teacher credit for military service. Some will grant either full or partial credit for honorable military service up to a maximum number of years.

4) Credit for non-related experience. Some salary schedules provide credit for experience in the Peace Corps, VISTA, National Teacher Corps, and similar public service programs.

Advancement on the schedule

Horizontal (academic training) advancement—Horizontal movement across a salary schedule, with few exceptions, requires earned academic credits beyond the bachelors degree. These credits must be earned in recognized institutions offering graduate level training. Additional restrictions often applied are as follows:

1) Administrative approval of either the teacher's degree program or specified courses.

2) The credits must be in the teacher's field. If related fields (such as education administration) are allowed, it is generally by prior approval only.

3) The credits must be in a graduate degree program, either in the teaching field or an approved related field.

4) The credits must be shown to improve the teacher's background or specifically relate to the curricular needs in the district.

5) If equivalency credit is given for special non-credit workshops or training, it almost universally requires a proof of relevancy and prior approval of the administration.

Every district should adopt basic rules for approval. If restrictions are not applied, problems will certainly surface—including illegitimate (diploma mill) degrees and degree credit in non-related programs.

Vertical (experience) advancement—Movement down a salary schedule is usually based on teaching experience. Other methods or restrictions are sometimes placed upon this advancement. Some of the commonly used methods of controlling advancement based on experience are the following:

1) Automatic advancement after a given period of time. This period of time may be consistent throughout the schedule (usually one year between each step) or the period may vary between steps. Automatic advancement is the common practice today. School administration frequently retains the right to withhold advancement for specified reasons.

2) Advancement at specified points contingent on additional units of academic credit (professional growth requirements). Such schedules may require, for example, the attainment of six credits beyond the minimum academic requirement for the relevant salary scale in order for the teacher to advance vertically beyond a specified step. In these schedules, the recency of the academic work is generally a key feature in provisions for advancement. Sometimes these requirements can be met through in-service training programs of various kinds.

3) Annual advancement contingent upon satisfactory performance. Teachers must receive satisfactory evaluations of their work in order to advance to the next scheduled step on the salary scale. The usual practice is for teachers to advance to the next step unless their supervisors have justification in terms of teaching performance for holding them back.

4) Advancement based on merit. Merit pay, a system which financially rewards employees for outstanding service, has not been popular with teacher unions for a variety of reasons. Although salary schedules providing for advancement solely on merit are rare, some school systems have provisions for additional advancement or partial advancement on the established scale or additional dollars based on merit evaluations.

5) Supermaximum or longevity steps. In addition to regular vertical advancement, some salary schedules also provide for long-service or super-maximum vertical increments beyond the highest step in one or more of the salary lanes comprising the schedule. Most of these increments are based solely on a specific number of years of experience above the highest number of years recognized on the regular schedule. However, some schedules require a merit evaluation for the attainment of supermaximum increments.

Salary supplements

In addition to the usual methods of advancement on their school system's salary schedule, some teachers may receive supplements to their regular salary. These supplements are not usually included in the schedules themselves, but are in addition to the salary schedule. Two exam-

ples are (1) extra pay for extra duties and (2) cost-of-living adjustments.

Extra pay for extra duties—Most school systems compensate teachers with pay beyond their normal salaries for services performed as extra-duty assignments. Teachers having extra-duty assignments usually serve in a guidance or supervisory capacity for student activities (e.g., athletic events, musical or dramatic performances, publications, debating), as a teacher with a special assignment or class, or as a department head. These stipends are paid either as a given dollar value for each assignment ($600 for volleyball coaching) or as a percent of base salary (5 percent of base salary for debate club).

Cost-of-living adjustments—The collective bargaining agreements in some school systems contain a clause that provides teachers with a cost-of-living adjustment as a supplement to the regular salary schedule. Based on changes in the Consumer Price Index (CPI) or a similar measure of consumer price changes, such clauses cover a specific time period to which the index is to be applied. Examples include:

1) Escalator clauses which provide for automatic adjustments during the contract year without additional negotiations whenever changes in the CPI surpass certain limits. In times of rapid price change, most escalator clauses contain provisions for specified maximum increases or ceilings. Escalator clauses often contain a provision for lowering the supplemental amounts in the event of a decrease in the CPI. Such clauses are not often used in school systems due to the unpredictability of their cost.

2) Reopener clauses which call for new salary bargaining to begin immediately or at the end of a contract year when the CPI reaches or exceeds a certain level. For example: *If the cost of living as indicated by the Department of Labor United States average has increased by more than 7.5 percent over last year, according to the 12 month CPI period ending July, 1980, negotiations for the 1980-81 salary schedule will be reopened.*

3) End-of-year clauses, found only in multi-year negotiation agreements, which convert changes in the CPI into individual salary adjustments for the next contract year without further bargaining. Such agreements should always include a maximum salary amount. For example: *Teacher salary schedules for the years 1979-80, 1980-81, and 1981-82 will be based upon the December CPI plus an additional one percent, with the stipulated minimum increase to be 4 percent and the maximum increase to be 8 percent.*

Cost of living

The traditional consumer price index (CPI) has become the most widely used indicator of U.S. price changes. Though commonly misunderstood, the CPI regularly enters the labor bargaining process as evidence of the need for employee wage increases. In extreme situations the index is actually incorporated into the negotiated contract in the form of "cost of living" clauses which provide for automatic wage adjustments.

To understand the problems inherent in applying the CPI in any manner, the nature of the index must be considered. The Department of Labor describes the indexes as:

> " . . . a monthly statistical measure of the average change in prices of goods and services purchased by . . . workers for day-to-day living. It is based on prices of about 400 "market basket" items selected to represent all consumption goods and services purchased by these workers. The quantity and quality of these items is kept essentially unchanged between major revisions so that only price changes will be measured. Prices are collected from about 40,000 tenants and 18,000 retail establishments in 56 urban areas across the country. All taxes directly associated with the purchase and use of the 400 items are included in the index . . ."[1]

CPI figures are reported by measuring changes in prices from a base period. Currently the base year is 1967, and changes in prices are generally measured from that year.[2]

CPI reporting is broken down into 28 area indexes and a U.S. city average. The U.S. city average index is published monthly, but the area indexes have varying reporting schedules. The figures for the five largest metropolitan areas, Chicago, Detroit, Los Angeles, New York, and Philadelphia, are published monthly like the U.S. city average index.

With the rapid inflation, labor strives for contract clauses that revolve around cost of living adjustments. Even where the cost of living is never mentioned it always plays a role in money bargaining. Because the news media headline CPI figures as a measure of inflation, its psychological effect on money bargaining can

[1]Monthly Labor Review, U.S. Department of Labor, Bureau of Labor Statistics. March 1978, p. 80.

[2]Some deviations exist. For example, the base period for Miami data is November, 1977.

never be escaped.

Where are the pitfalls in the use of CPI data?

First, the CPI measures changes in prices. It is not a true indicator of change in the cost of living by its very definition. Then, too, there is some question about the CPI's ability to accurately reflect even the price changes it sets out to measure.

For example, the figures used by labor to show price changes often mask the fact that some prices have increased while others have decreased. Using a single average figure often obscures the fact that the prices which most affect the union's members may have remained relatively constant.

The CPI is also not an accurate measure of actual consumer habits. As prices of certain products increase, the consumer often makes substitutions—an effect the CPI never indicates. Substitutions also occur when new products are introduced and buying habits are altered to reflect this new availability. The CPI does not measure such changes in buying patterns.

Moreover, the CPI is heavily weighted toward urban consumers and urban price changes may not relate accurately to a rural area. While big city increases in food prices may have some relationship to increases evident in the contiguous rural communities, price increases in public transportation will have no such correlation.

In addition to the deficiencies noted above, introducing CPI data into the public sector bargaining model poses some other significant pitfalls.

Because the nature of a salary schedule is befuddling to the public (most people identify instead with hourly wages or yearly salaries), the concept of automatic steps becomes difficult to explain to the community. The public relations problem that arises is obvious. When the union wants a 7.5 percent cost-of-living increase, do they mean 7.5 percent across the schedule or 7.5 percent including the annual step increase? Of course, the union usually means the former while the board is thinking in terms of the latter. When the two interpretations of "the last offer" reach the public, confusion is inevitable.

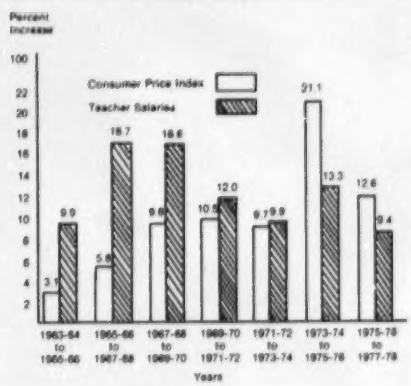
Imposing cost-of-living (COL) calculations on this situation gets even more confusing when they emerge from the contract as escalator or end year clauses. Where the annual step increase is not excluded from the automatic adjustment in contract language, management often finds itself bound to an 11.5 percent increase in salary cost when it thought it would be liable for 7.5 percent (assuming 4 percent schedule increments and 7.5 percent COL; see Exhibit B).

Another hidden problem with union demands for COL increases based on CPI figures arises when the board pays all or a fixed percent of fringe benefits which are ignored in bargaining. Some of the impact of price increases are actually never absorbed by the employee in cases where the board directly pays all or part of certain fringes. For example, if insurance prices rise rapidly, this will have a significant effect on the CPI the union cites, yet such price escalations will have no effect on the teacher because the board is absorbing the increased cost.

Multi-year contracts which provide the CPI-

Exhibit B—Increase in the biennial average consumer price index

Percent increases in biennial mean maximum scheduled salaries for teachers in school systems with 25,000 or more pupils compared with percent increase in the biennial average consumer price index, 1963-64 to 1977-78



SOURCES: Data for the CPI: U.S. Department of Labor, Bureau of Labor Statistics. Data for Teacher Salaries: Educational Research Service, *Salaries Scheduled for Administrative and Supervisory Personnel in Public Schools, 1973-74* (1973), p. 27, *Scheduled Salaries for Professional Personnel in Public Schools, 1977-78* (1978), p. 22 and *The New and Revised Consumer Price Indexes, 1978*, p. 7

based automatic increases pose some additional problems. Since no one knows where the CPI is actually going two years in advance, boards agreeing to a multi-year contract with a COL clause are making commitments that they may not be able to keep and still be responsible for fiscally sound management.

Relating salary schedules to inflation indicators

In times of high inflation (generally when the CPI exceeds 6 percent annually), there is a bargaining demand for increased compensation commensurate with the impact of inflation. Although this argument sounds logical, it typically ignores the fact that periods of high inflation, wages rarely keep up with the CPI. Wage gains during low inflationary periods make up for the loss.

Wage gains generally follow a straight line increase, while inflation rates tend to be cyclical. In order to assess the inflation rate of wages in a given school district, salaries must be compared to inflation over a number of years. A district that has salary schedules from previous years (1966-67 is a good starting point because the CPI was adjusted to 100.0 at that time), the actual wage gain in relationship to salaries can be calculated at all salary schedule levels. It is also more revealing when salary increments are included in the wage gain data and/or individual teachers' salaries are compared over the entire span of time.

Exhibit C is an example of salary comparisons made in a school district from 1966 to 1976 in terms of the CPI and the teachers' buying power in 1966-67 dollars. Although it is virtually impossible to eliminate teacher demands for high wage increases during inflationary periods, this type of analysis at least makes teachers aware of actual wage gains related to time.

Exhibit C—Relationship of salaries (1966-76) to consumer price index and buying power

			Starting Salary v. Inflation			Effect of Automatic Increases			Masters Starting Salary v. Inflation		Masters Maximum v. Inflation	
Year	Average C.P.I.	Buying Power Index (a)	Starting Salary	In 1967 Dollars (a)	Percent of Index	Salary Teacher Employed 1966 (b)	Percent of Index	In 1967 Dollars (a)	Masters Degree	Percent of Index	MA Maximum	Percent of Index
1966-67	100.0	1.000	$5,400	$5,400	100.0	$5,400	100.0	$5,400	$5,832	100.0	$8,208	100.0
1967-68	102.0	980	5,700	5,588	105.6	5,871	106.8	5,753	6,555	112.3	9,063	110.4
1968-69	106.9	935	6,400	5,986	118.5	6,912	128.0	6,042	7,360	126.2	10,176	124.0
1969-70	113.1	884	6,800	6,012	125.9	7,616	141.0	6,732	7,868	135.2	11,152	135.9
1970-71	119.0	840	7,200	6,050	133.3	8,496	157.3	7,136	8,352	143.2	11,808	143.9
1971-72	123.3	811	7,492	6,076	138.7	9,140	169.2	7,412	8,691	149.0	12,287	149.7
1972-73	128.2	780	7,750	6,045	143.5	9,765	180.8	7,617	8,990	154.1	12,710	154.8
1973-74	139.7	715	7,950	5,690	147.2	10,256	189.9	7,333	9,222	158.1	13,038	158.8
1974-75	145.6	686	8,600	5,906	159.2	11,395	211.0	7,817	10,019	171.8	14,835	180.7
1975-76	163.6	611	9,150	5,592	169.4	12,124	212.4 (c)	7,408	10,660	182.8 (d)	15,784	192.3 (e)

a) 1967 dollars are the actual salary paid times the buying power index which is the inverse of C.P.I., e.g. 1971-72 = $\frac{100}{123.3}$

b) Includes automatic increase for each additional year in district.

c) Increase represents 42.7% increase in real money over 9 year period. In addition, that same teacher could have easily advanced to the Masters degree column with 9 years' experience and receive $14,228—an increase of 61% in real money and could conceivably be at MS + 32 with 9 years and receive $15,784—an increase of 192% actual or 78.6% in real money (1967 dollars). Few teachers will remain on Bachelors column and will not only benefit from automatic experience increases but increases for additional training.

d) Greater increase in Masters column over Bachelors column reflects horizontal index granted for additional training.

e) Greater increase in Masters maximum over Masters starting reflects vertical indexing based on experience in the district.

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